

STATE OF FLORIDA AUDITOR GENERAL

Financial Audit

Report No. 2018-136
March 2018

FLORIDA GULF COAST UNIVERSITY

For the Fiscal Year Ended
June 30, 2017



Sherrill F. Norman, CPA
Auditor General

Board of Trustees and President

During the 2016-17 fiscal year, Dr. Wilson G. Bradshaw served as President of Florida Gulf Coast University and the following individuals served as Members of the Board of Trustees:

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Dr. Ken Smith, Vice Chair from 4-4-17	Johnny Montgomery
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through 4-3-17	Russell Priddy
Darleen Cors	Robbie Roepstorff
Thieldens Elneus through 3-31-17 ^b	Christian Spilker
Joseph Fogg	Jalisa White from 4-1-17 ^b

^a Faculty Senate Chair.

^b Student Body President.

Note: One member position was vacant during the period.

The Auditor General conducts audits of governmental entities to provide the Legislature, Florida's citizens, public entity management, and other stakeholders unbiased, timely, and relevant information for use in promoting government accountability and stewardship and improving government operations.

The team leader was Christopher K. Belt, CPA, and the supervisor was Deirdre F. Waigand, CPA.

Please address inquiries regarding this report to Jaime Hoelscher, CPA, Audit Manager, by e-mail at jaimehoelscher@aud.state.fl.us or by telephone at (850) 412-2868.

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FLORIDA GULF COAST UNIVERSITY
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SUMMARY

SUMMARY OF REPORT ON FINANCIAL STATEMENTS

Our audit disclosed that the basic financial statements of Florida Gulf Coast University (a component unit of the State of Florida) were presented fairly, in all material respects, in accordance with prescribed financial reporting standards.

SUMMARY OF REPORT ON INTERNAL CONTROL AND COMPLIANCE

Our audit did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States.

AUDIT OBJECTIVES AND SCOPE

Our audit objectives were to determine whether Florida Gulf Coast University and its officers with administrative and stewardship responsibilities for University operations had:

- Presented the University's basic financial statements in accordance with generally accepted accounting principles;
- Established and implemented internal control over financial reporting and compliance with requirements that could have a direct and material effect on the financial statements; and
- Complied with the various provisions of laws, rules, regulations, contracts, and grant agreements that are material to the financial statements.

The scope of this audit included an examination of the University's basic financial statements as of and for the fiscal year ended June 30, 2017. We obtained an understanding of the University's environment, including its internal control, and assessed the risk of material misstatement necessary to plan the audit of the basic financial statements. We also examined various transactions to determine whether they were executed, in both manner and substance, in accordance with governing provisions of laws, rules, regulations, contracts, and grant agreements.

An examination of Federal awards administered by the University is included within the scope of our Statewide audit of Federal awards administered by the State of Florida.

AUDIT METHODOLOGY

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.



Sherrill F. Norman, CPA
Auditor General

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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT

Report on the Financial Statements

We have audited the accompanying financial statements of Florida Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the blended and discretely presented component units. The financial statements of the Florida Gulf Coast University Financing Corporation, a blended component unit, represent 5.3 percent, 66.5 percent, 6.8 percent, and 7.8 percent, respectively, of the assets, liabilities, net position, and revenues, reported for Florida Gulf Coast University. The financial statements of the discretely presented component unit represent 100 percent of the transactions and account balances of the discretely presented component unit's columns. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for the blended and discretely presented component units, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require

that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of Florida Gulf Coast University and of its discretely presented component unit as of June 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that **MANAGEMENT'S DISCUSSION AND ANALYSIS**, the **Schedule of Funding Progress – Other Postemployment Benefits Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan**, **Schedule of University Contributions – Florida Retirement System Pension Plan**, **Schedule of the University's Proportionate Share of the Net Pension Liability – Health Insurance Subsidy Pension Plan**, **Schedule of University Contributions – Health Insurance Subsidy Pension Plan**, and **Notes to Required Supplementary Information**, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated March 9, 2018, on our consideration of the Florida Gulf Coast University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements and other matters included under the heading **INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Florida Gulf Coast University's internal control over financial reporting and compliance.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 9, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis (MD&A) provides an overview of the financial position and activities of the University for the fiscal year ended June 30, 2017, and should be read in conjunction with the financial statements and notes thereto. The MD&A, and financial statements and notes thereto, are the responsibility of University management. The MD&A contains financial activity of the University for the fiscal years ended June 30, 2017, and June 30, 2016.

FINANCIAL HIGHLIGHTS

The University's assets totaled \$647.3 million at June 30, 2017. This balance reflects a \$5.2 million, or 0.8 percent, increase as compared to the 2015-16 fiscal year, resulting from increases in State noncapital appropriations and income related to an increase in student enrollment. The slight increase in assets was accompanied with an increase in liabilities of \$16 million, or 5.5 percent, totaling \$305.7 million at June 30, 2017, compared to \$289.7 at June 30, 2016. Deferred outflows of resources increased by \$12.1 million and deferred inflows of resources decreased by \$4.2 million, as compared to the 2015-16 fiscal year. As a result, the University's overall net position increased by \$5.5 million, resulting in a year-end balance of \$367.9 million.

The University's revenues totaled \$239.2 million for the 2016-17 fiscal year, representing a 5.2 percent increase compared to the 2015-16 fiscal year due mainly to increases in State noncapital appropriations, student tuition and fees, State capital appropriations, and sales and services of auxiliary enterprises. Operating expenses totaled \$225.2 million for the 2016-17 fiscal year, representing an increase of 7.2 percent as compared to the 2015-16 fiscal year due mainly to increases in compensation and employee benefits, scholarships, fellowships, and waivers, and depreciation.

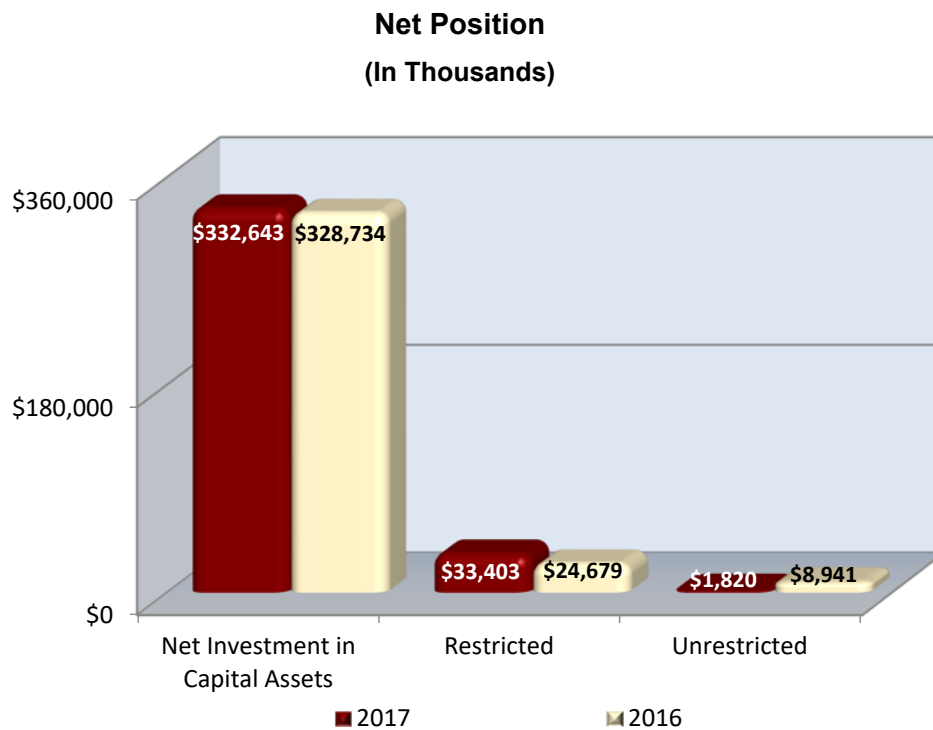
Net position represents the residual interest in the University's assets and deferred outflows of resources after deducting liabilities and deferred inflows of resources. The University had a deficit in the unrestricted net position of \$9.6 million and its blended component unit had an unrestricted net position of \$11.4 million dollars, as a result the University reported a combined unrestricted net position of \$1.8 million. The continued deficit in the University's unrestricted net position was the result of recording long-term liabilities within the annually funded operational fund as required by Government Accounting Standards. The following table detailing the components of the University's ending net position demonstrates that the University's negative unrestricted net position was caused by long-term liabilities that will be paid over time and financed by future appropriations.

Unrestricted Net Position

(In Thousands)

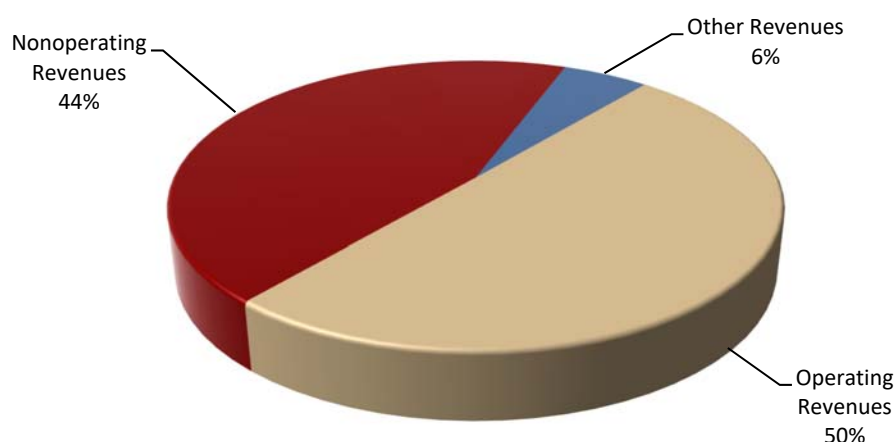
		Amount (In Thousands)
Unrestricted Fund Balance		\$ 55,542
Amount to be Financed in the Future		
Compensated Absences Liability	\$ 11,587	
Other Postemployment Benefits Liability	29,592	
FRS Net Pension Liability	34,906	
HIS Net Pension Liability	15,339	
Deferred Outflows of Resources	(26,670)	
Deferred Inflows of Resources	360	
Less, Total Amount to be Financed in the Future		<u>65,114</u>
University's Unrestricted Net Position		(9,572)
Blended Component Unit's Unrestricted Net Position		<u>11,392</u>
Total Ending Unrestricted Net Position		<u><u>\$ 1,820</u></u>

The University's comparative total net position by category for the fiscal years ended June 30, 2017, and June 30, 2016, is shown in the following graph:



The following chart provides a graphical presentation of University revenues by category for the 2016-17 fiscal year:

Total Revenues 2016-17 Fiscal Year



OVERVIEW OF FINANCIAL STATEMENTS

Pursuant to GASB Statement No. 35, the University's financial report consists of three basic financial statements: the statement of net position; the statement of revenues, expenses, and changes in net position; and the statement of cash flows. The financial statements, and notes thereto, encompass the University and its component units. Based on the application of the criteria for determining component units, the Florida Gulf Coast University Financing Corporation (Corporation) is included within the University reporting entity as a blended component unit, and the Florida Gulf Coast University Foundation, Inc. (Foundation), is included within the University reporting entity as a discretely presented component unit.

This MD&A focuses on the University, excluding the discretely presented component unit. MD&A information regarding the Corporation and Foundation component units can be found in their separately issued audit reports. Information regarding these component units, including summaries of the blended component unit's separately issued financial statements, is presented in the notes to financial statements.

The Statement of Net Position

The statement of net position reflects the assets, deferred outflows of resources, liabilities, and deferred inflows of resources of the University, using the accrual basis of accounting, and presents the financial position of the University at a specified time. Assets, plus deferred outflows of resources, less liabilities, less deferred inflows of resources, equals net position, which is one indicator of the University's current financial condition. The changes in net position that occur over time indicate improvement or deterioration in the University's financial condition.

The following summarizes the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position at June 30:

Condensed Statement of Net Position at June 30

(In Thousands)

	2017	2016
Assets		
Current Assets	\$ 100,122	\$ 91,577
Capital Assets, Net	531,800	538,548
Other Noncurrent Assets	15,328	11,899
Total Assets	647,250	642,024
Deferred Outflows of Resources	26,670	14,613
Liabilities		
Current Liabilities	22,602	26,455
Noncurrent Liabilities	283,092	263,252
Total Liabilities	305,694	289,707
Deferred Inflows of Resources	360	4,576
Net Position		
Net Investment in Capital Assets	332,643	328,734
Restricted	33,403	24,679
Unrestricted	1,820	8,941
Total Net Position	\$ 367,866	\$ 362,354

The University's financial position, as a whole, increased during the fiscal year ended June 30, 2017, with an increase of net position in the amount of \$5.5 million, or 1.5 percent, from the 2015-16 fiscal year primarily due to the increases in total assets, deferred outflows, and liabilities, and the decrease in deferred inflows of resources. The decrease in unrestricted net position of \$7.1 million, or 79.6 percent was offset by increases in restricted net position of \$8.7 million, or 35.3 percent, and net investment in capital assets of \$3.9 million, or 1.2 percent. The University continues to experience sound overall financial condition and health.

Total assets increased \$5.2 million, or 0.8 percent, mainly in current assets and other noncurrent assets, and was offset by a decrease in net capital assets. The decrease in net capital assets was primarily from the sale of the Naples land which was accompanied by the corresponding decrease in liabilities due to settlement of the loan. Invested funds grew as a result of increased State noncapital appropriations. Funds due from State increased \$5.5 million, or 53.3 percent, for State capital appropriations for Academic Building 9, South Village Recreation Center, South Access Road, and Transmission Tower Replacement projects. Deferred outflows of resources associated with net pension resources increased by \$12.1 million, or 82.5 percent as compared to 2015-16 fiscal year.

Total liabilities increased \$16 million, or 5.5 percent. The noncurrent liabilities for pension and for other postemployment benefits increased while bonds payable slightly decreased as a result of principal payments, and loans payable decreased following the sale of the Naples land and subsequent settlement of debt. Deferred inflows of resources associated with net pension resources decreased by \$4.2 million, or 92.1 percent as compared to 2015-16 fiscal year. Restricted net position includes \$8.1 million in the

required debt service reserve accounts for Capital Improvement Revenue Bonds, Series 2010A, 2010B, 2011A, 2013A, and Loan Agreements 2005A and 2005B, and \$4 million restricted by the covenants of the Series 2008A, and 2009A bond reimbursement agreements.

The Statement of Revenues, Expenses, and Changes in Net Position

The statement of revenues, expenses, and changes in net position presents the University's revenue and expense activity, categorized as operating and nonoperating. Revenues and expenses are recognized when earned or incurred, regardless of when cash is received or paid.

The following summarizes the University's activity for the 2016-17 and 2015-16 fiscal years:

Condensed Statement of Revenues, Expenses, and Changes in Net Position For the Fiscal Years

(In Thousands)

	2016-17	2015-16
Operating Revenues	\$ 120,296	\$ 116,252
Less, Operating Expenses	225,224	210,112
Operating Loss	(104,928)	(93,860)
Net Nonoperating Revenues	97,450	96,756
Income (Loss) Before Other Revenues	(7,478)	2,896
Other Revenues	12,990	6,275
Net Increase In Net Position	5,512	9,171
Net Position, Beginning of Year	362,354	353,183
Net Position, End of Year	<u>\$ 367,866</u>	<u>\$ 362,354</u>

Operating Revenues

GASB Statement No. 35 categorizes revenues as either operating or nonoperating. Operating revenues generally result from exchange transactions where each of the parties to the transaction either gives or receives something of equal or similar value. Operating revenues generally consist of student tuition and fees, grants and contracts, and auxiliary service revenues from students and others to provide them with instruction and other goods and services.

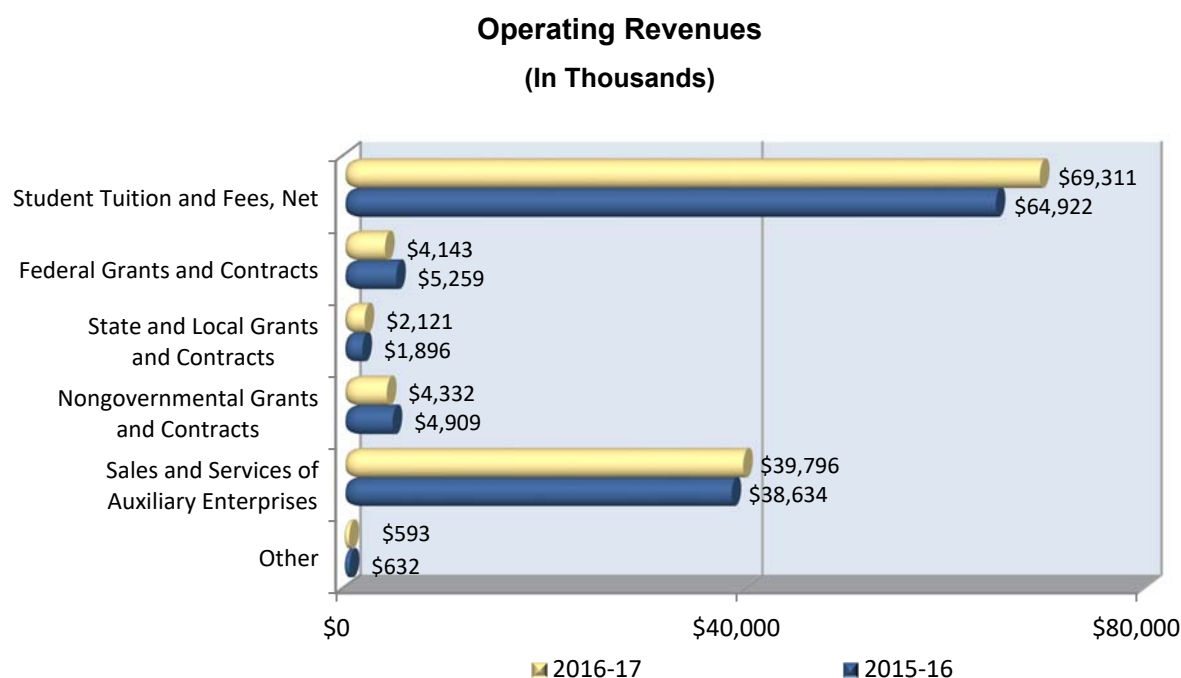
The following summarizes the operating revenues by source that were used to fund operating activities for the 2016-17 and 2015-16 fiscal years:

Operating Revenues For the Fiscal Years

(In Thousands)

	<u>2016-17</u>	<u>2015-16</u>
Student Tuition and Fees, Net	\$ 69,311	\$ 64,922
Federal Grants and Contracts	4,143	5,259
State and Local Grants and Contracts	2,121	1,896
Nongovernmental Grants and Contracts	4,332	4,909
Sales and Services of Auxiliary Enterprises	39,796	38,634
Other	593	632
Total Operating Revenues	<u><u>\$ 120,296</u></u>	<u><u>\$ 116,252</u></u>

The following chart presents the University's operating revenues for the 2016-17 and 2015-16 fiscal years:



University operating revenue changes were the result of the following factors:

- Total operating revenues for the 2016-17 fiscal year were \$120.3 million, of which \$69.3 million were from net student tuition and fees. A tuition allowance, which represents the difference between the stated charges for goods and services provided by the University and the amount that is actually paid by a student or third party making payment on behalf of a student, totaled \$29.4 million. The reduction of gross fees of \$98.7 million resulted in net student tuition and fees of \$69.3 million, which represents an increase of \$4.4 million, or 6.8 percent, over the 2015-16 fiscal year. Increased student enrollment is the main reason for the revenue increase.
- Sales and services of auxiliary enterprises reflect a \$1.2 million, or 3 percent, increase over the 2015-16 fiscal year primarily due to the slight growth of student enrollment on health and parking fees.
- Federal and nongovernmental grants and contracts decreased by \$1.7 million because of the timing, number, and size of grants received through the Office of Research and Graduate Studies.

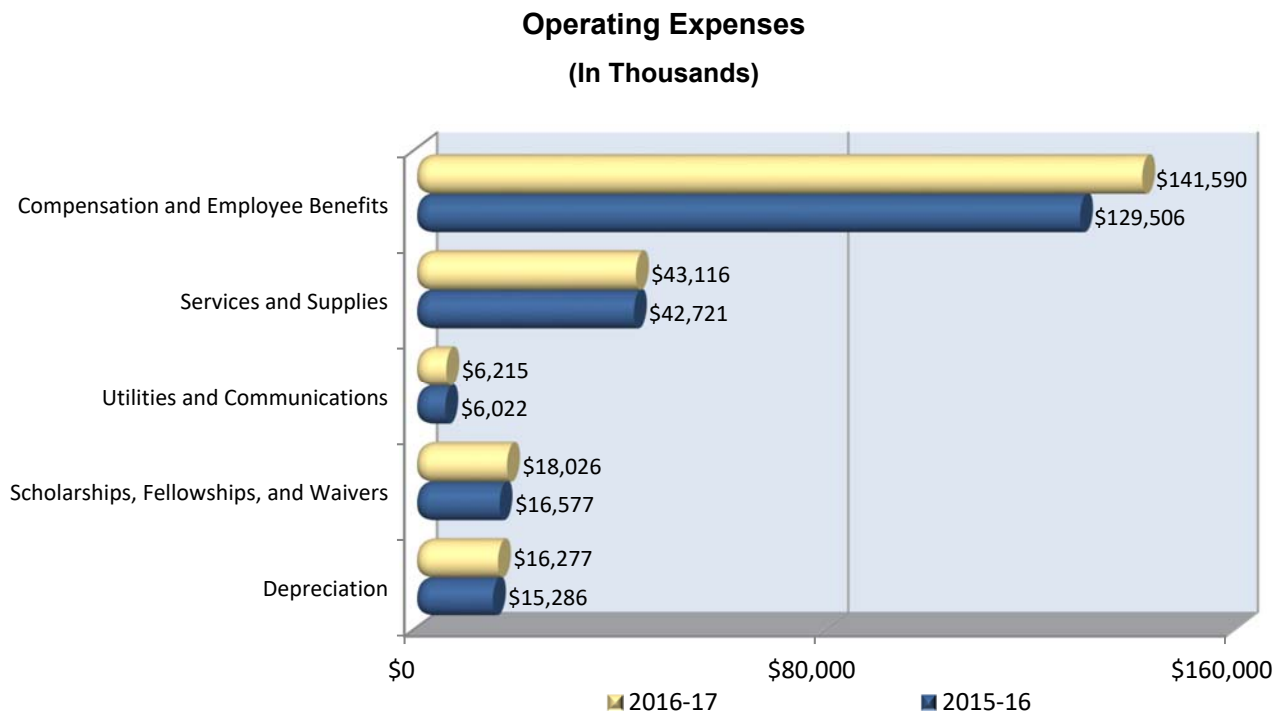
Operating Expenses

Expenses are categorized as operating or nonoperating. The majority of the University's expenses are operating expenses as defined by GASB Statement No. 35. GASB gives financial reporting entities the choice of reporting operating expenses in the functional or natural classifications. The University has chosen to report the expenses in their natural classification on the statement of revenues, expenses, and changes in net position and has displayed the functional classification in the notes to financial statements.

The following summarizes operating expenses by natural classification for the 2016-17 and 2015-16 fiscal years:

Operating Expenses For the Fiscal Years		
(In Thousands)		
	2016-17	2015-16
Compensation and Employee Benefits	\$ 141,590	\$ 129,506
Services and Supplies	43,116	42,721
Utilities and Communications	6,215	6,022
Scholarships, Fellowships, and Waivers	18,026	16,577
Depreciation	16,277	15,286
Total Operating Expenses	\$ 225,224	\$ 210,112

The following chart presents the University's operating expenses for the 2016-17 and 2015-16 fiscal years:



Total operating expenses for the 2016-17 fiscal year were \$225.2 million, an increase of \$15.1 million, or 7.2 percent, over the 2015-16 fiscal year. Compensation and employee benefits increased \$12.1 million,

or 9.3 percent, from increases in the number of faculty and staff, a salary increase of 1 percent in July 2016, and a one-time bonus of \$1,000. Services and supplies slightly increased by \$0.4 million, or 0.9 percent, which was primarily associated with the growth of student population.

Nonoperating Revenues and Expenses

Certain revenue sources that the University relies on to provide funding for operations, including State noncapital appropriations, Federal and State student financial aid, and investment income are defined by GASB as nonoperating. Nonoperating expenses include capital financing costs and other costs related to capital assets. The following summarizes the University's nonoperating revenues and expenses for the 2016-17 and 2015-16 fiscal years:

Nonoperating Revenues (Expenses)		
For the Fiscal Years		
(In Thousands)		
	<u>2016-17</u>	<u>2015-16</u>
State Noncapital Appropriations	\$ 76,438	\$ 72,541
Federal and State Student Financial Aid	24,563	26,133
Investment Income (Loss)	(484)	2,384
Other Nonoperating Revenues	5,384	3,880
Interest on Capital Asset-Related Debt	(8,338)	(7,439)
Loss on Disposal of Capital Assets	(56)	(33)
Other Nonoperating Expenses	<u>(57)</u>	<u>(710)</u>
Net Nonoperating Revenues	<u>\$ 97,450</u>	<u>\$ 96,756</u>

The increase of \$0.7 million, or 0.7 percent in net nonoperating revenues is primarily due to the increase in State noncapital appropriations offset by decreases in other nonoperating revenues. State noncapital appropriations increased \$3.9 million, or 5.4 percent, mainly from a net increase in special local initiatives of \$3.1 million funded by the legislature to support programs designed to enhance student success. Federal and State student financial aid decreased by \$1.6 million, or 6 percent, due to the continuing decrease in Florida Bright Futures awards as a result of the program's increased eligibility requirements for scholarships. A fair market value adjustment for unrealized loss on the University's investments caused a net investment loss of \$0.5 million, or 120.3 percent decrease as compared to the 2015-16 fiscal year.

Other Revenues

This category is composed of State capital appropriations and capital grants, contracts, donations, and fees. The following summarizes the University's other revenues for the 2016-17 and 2015-16 fiscal years:

**Other Revenues
For the Fiscal Years
(In Thousands)**

	<u>2016-17</u>	<u>2015-16</u>
State Capital Appropriations	\$ 7,946	\$ 5,776
Capital Grants, Contracts, Donations, and Fees	<u>5,044</u>	<u>499</u>
Total	<u>\$ 12,990</u>	<u>\$ 6,275</u>

State capital appropriations increased \$2.2 million, or 37.6 percent, as compared to the 2015-16 fiscal year, primarily due to funding of the Academic Building 9 project and the Transmission Tower Replacement project. State contributions (appropriations) for capital projects, depending upon the various stages of planning and completion, will fluctuate from year to year.

The Statement of Cash Flows

The statement of cash flows provides information about the University's financial results by reporting the major sources and uses of cash and cash equivalents. This statement will assist in evaluating the University's ability to generate net cash flows, its ability to meet its financial obligations as they come due, and its need for external financing. Cash flows from operating activities show the net cash used by the operating activities of the University. Cash flows from capital financing activities include all plant funds and related long-term debt activities. Cash flows from investing activities show the net source and use of cash related to purchasing or selling investments, and earning income on those investments. Cash flows from noncapital financing activities include those activities not covered in other sections.

The following summarizes cash flows for the 2016-17 and 2015-16 fiscal years:

**Condensed Statement of Cash Flows
For the Fiscal Years
(In Thousands)**

	<u>2016-17</u>	<u>2015-16</u>
Cash Provided (Used) by:		
Operating Activities	\$ (78,155)	\$ (67,939)
Noncapital Financing Activities	106,234	102,686
Capital and Related Financing Activities	(20,837)	(30,655)
Investing Activities	<u>(7,276)</u>	<u>(4,163)</u>
Net Decrease in Cash and Cash Equivalents	(34)	(71)
Cash and Cash Equivalents, Beginning of Year	<u>530</u>	<u>601</u>
Cash and Cash Equivalents, End of Year	<u>\$ 496</u>	<u>\$ 530</u>

Major sources of funds included in operating activities are net student tuition and fees of \$69.9 million, Federal, State and local grants and contracts of \$10.5 million, and sales and services of auxiliary enterprises of \$39.2 million. Major uses of funds were payments made to and on behalf of employees totaling \$130.9 million, payments to suppliers totaling \$49.6 million, and payments to and on behalf of students for scholarships and fellowships totaling \$18 million. The increase in cash used by operating

activities as compared to the 2015-16 fiscal year was due primarily to an increase in cash used for payments to employees offset by an increase in cash provided by net student tuition and fees.

The largest source of inflow of cash from noncapital financing activities was State noncapital appropriations in the amount of \$76.4 million. Also included in noncapital financing revenues was Federal and State student financial aid of \$24.6 million and \$48.7 million of Federal direct loan program receipts. The major use of funds was Federal direct loan program disbursements of \$48.8 million.

Net cash used by capital and related financing activities was \$20.8 million. The main source of cash was provided by State capital appropriations of \$2.5 million. Cash used was primarily due from \$11.4 million for the purchase or construction of capital assets, and \$14 million in principal and interest payments on asset related debt.

Cash used by investing activities was \$7.3 million from the net purchases of investments.

CAPITAL ASSETS, CAPITAL EXPENSES AND COMMITMENTS, AND DEBT ADMINISTRATION
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Capital Assets

At June 30, 2017, the University had \$685.4 million in capital assets, less accumulated depreciation of \$153.6 million, for net capital assets of \$531.8 million. Depreciation charges for the current fiscal year totaled \$16.3 million. The following table summarizes the University's capital assets, net of accumulated depreciation, at June 30:

Capital Assets, Net at June 30

(In Thousands)

	2017	2016
Land	\$ 51,647	\$ 56,647
Buildings	427,171	432,598
Construction in Progress	6,092	3,090
Infrastructure and Other Improvements	22,448	21,567
Furniture and Equipment	19,873	20,388
Library Resources	2,045	1,946
Property Under Capital Lease	14	-
Works of Art and Historical Treasures	2,309	2,280
Computer Software and Other Capital Assets	201	32
Capital Assets, Net	\$ 531,800	\$538,548

Additional information about the University's capital assets is presented in the notes to the financial statements.

Capital Expenses and Commitments

Major capital expenses through June 30, 2017, were incurred on the following projects: South Village Recreation Center, South Access Road, and the North Lake Village Dining Facility and Site Improvements. The University's construction commitments at June 30, 2017, are as follows:

	Amount (In Thousands)
Total Committed	\$ 26,666
Completed to Date	<u>(6,092)</u>
Balance Committed	<u>\$ 20,574</u>

Additional information about the University's construction commitments is presented in the notes to financial statements.

Debt Administration

As of June 30, 2017, the University had \$199.2 million in outstanding bonds payable, loans payable, and capital leases payable representing a decrease of \$10.7 million, or 5.1 percent, from the prior fiscal year resulting from principal payments. The following table summarizes the outstanding long-term debt by type for the fiscal years ended June 30:

Long-Term Debt at June 30

(In Thousands)

	<u>2017</u>	<u>2016</u>
Bonds Payable	\$ 188,647	\$ 194,014
Loans Payable	10,500	15,800
Capital Leases Payable	<u>10</u>	<u>-</u>
Total	<u>\$ 199,157</u>	<u>\$ 209,814</u>

Additional information about the University's long-term debt is presented in the notes to financial statements.

ECONOMIC FACTORS THAT WILL AFFECT THE FUTURE

The University is not aware of any currently known facts, decisions, or conditions that are expected to have a significant effect on its financial position or operations during the 2017-18 fiscal year. The University's financial outlook for the future continues to be positive. The level of State support, and student tuition and fee increases impact the University's ability to expand programs, undertake new initiatives, and meet its core mission and ongoing operational needs. The level of State support is one of the key factors influencing the University's activities. Because of the University's ranking in the State's performance metrics, a decrease in State funding is anticipated in the 2017-18 fiscal year. While student enrollment increases, student tuition and fees will remain at the same level in the 2017-18 fiscal year, and resources will continue to be managed through expenditure analyses and efficiencies.

The budget that the Florida Legislature adopted for the 2017-18 fiscal year provided \$72.1 million for the University's State noncapital appropriations, or a decrease of 5.5 percent from the 2016-17 fiscal year. The net reduction in State noncapital appropriations of \$3.5 million were mainly from cuts of \$8 million in Performance-Based Funding and \$1 million in Academic Attainment. These reductions were offset by new State funding of \$5.5 million specifically for Talent Gaps programs, World Class Faculty, and Graduate Programs. In addition, the University has set aside \$1 million for its Honors College initiative.

In order to cover the overall reduction of \$10 million in funding for general purposes, the University has budgeted expense reductions of \$4 million, and will be utilizing Carryforward reserve funds of \$6 million.

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. The Fall 2017 enrollment of 15,035 students increased 1.4 percent over the final Fall 2016 enrollment of 14,821 students. First time-in-college freshman admission of 2,666 students increased slightly from the final enrollment of 2,551 students in the 2016-17 fiscal year. Efforts to improve retention, such as an aggressive marketing plan to recruit qualified students, enhanced intervention to assist academic success, and the Soar in 4 financial incentive program launched in Summer 2015 will help ensure total enrollment continues in a positive trend. In the 2017-18 fiscal year, the University expects an increase in revenue from student tuition and fees due to increased enrollment.

The State has approved and appropriated funds in the amount of \$17.1 million to the University's capital budget for the 2017-18 fiscal year. Public Education Capital Outlay appropriations for the 2017-18 fiscal year are for capital improvement projects in the amount of \$12.7 million for Academic Building 9, \$1.8 million for replacement of the Transmission Tower, and repairs and maintenance in the amount of \$0.6 million. The Capital Improvement Fee appropriation of \$2 million for the 2017-18 fiscal year is for continued funding of the student recreation center.

REQUESTS FOR INFORMATION

Questions concerning information provided in the MD&A or other required supplemental information, and financial statements and notes thereto, or requests for additional financial information should be addressed to Mr. Steve Magiera, CPA, Vice President of Administration and Finance, Florida Gulf Coast University, 10501 FGCU Boulevard South, Fort Myers, Florida 33965.

BASIC FINANCIAL STATEMENTS

FLORIDA GULF COAST UNIVERSITY A Component Unit of the State of Florida Statement of Net Position

June 30, 2017

	University	Component Unit
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 60,975	\$ 22,121,851
Investments	81,316,687	-
Accounts Receivable, Net	3,022,278	1,152,092
Loans Receivable, Net	4,352	-
Due from State	15,718,136	-
Total Current Assets	100,122,428	23,273,943
Noncurrent Assets:		
Restricted Cash and Cash Equivalents	434,850	-
Investments	-	952,477
Restricted Investments	14,893,403	88,721,926
Accounts and Pledges Receivable, Net	-	1,900,500
Real Estate Held for Investment	-	11,709,686
Depreciable Capital Assets, Net	472,267,463	-
Nondepreciable Capital Assets	59,532,114	-
Other Noncurrent Assets	-	92,483
Total Noncurrent Assets	547,127,830	103,377,072
Total Assets	647,250,258	126,651,015
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	26,669,734	-
LIABILITIES		
Current Liabilities:		
Accounts Payable	8,185,407	201,610
Construction Contracts Payable	1,087,066	-
Salary and Wages Payable	4,442,642	-
Deposits Payable	1,045,547	-
Unearned Revenue	351,726	-
Long-Term Liabilities - Current Portion:		
Bonds Payable	5,515,000	-
Loans Payable	500,000	2,250,000
Capital Leases Payable	4,874	-
Compensated Absences Payable	996,780	-
Net Pension Liability	472,670	-
Gift Annuities Payable	-	75,032
Total Current Liabilities	22,601,712	2,526,642

FLORIDA GULF COAST UNIVERSITY
A Component Unit of the State of Florida
Statement of Net Position (Continued)

June 30, 2017

	<u>University</u>	<u>Component Unit</u>
LIABILITIES (Continued)		
Noncurrent Liabilities:		
Bonds Payable	183,132,029	-
Loans Payable	10,000,000	-
Capital Leases Payable	5,099	-
Compensated Absences Payable	10,590,484	-
Other Postemployment Benefits Payable	29,592,000	-
Net Pension Liability	49,772,461	-
Other Noncurrent Liabilities	-	453,341
Total Noncurrent Liabilities	<u>283,092,073</u>	<u>453,341</u>
Total Liabilities	<u>305,693,785</u>	<u>2,979,983</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred Amounts Related to Pensions	<u>359,938</u>	<u>-</u>
NET POSITION		
Net Investment in Capital Assets	332,642,575	-
Restricted for Nonexpendable:		
Endowment	-	71,068,047
Restricted for Expendable:		
Debt Service	12,132,240	-
Loans	535,431	-
Capital Projects	17,019,545	-
Other	3,716,547	47,145,434
Unrestricted	<u>1,819,931</u>	<u>5,457,551</u>
TOTAL NET POSITION	<u><u>\$ 367,866,269</u></u>	<u><u>\$ 123,671,032</u></u>

The accompanying notes to financial statements are an integral part of this statement.

FLORIDA GULF COAST UNIVERSITY
A Component Unit of the State of Florida
Statement of Revenues, Expenses, and Changes in Net Position
For the Fiscal Year Ended June 30, 2017

	<u>University</u>	<u>Component Unit</u>
REVENUES		
Operating Revenues:		
Student Tuition and Fees, Net of Scholarship Allowances of \$29,430,498 (\$3,157,874 Pledged for Parking Facility Capital Improvement Debt)	\$ 69,310,902	\$ -
Federal Grants and Contracts	4,142,706	-
State and Local Grants and Contracts	2,120,845	-
Nongovernmental Grants and Contracts	4,331,622	-
Sales and Services of Auxiliary Enterprises (\$349,541 Pledged for Parking Facility Capital Improvement Debt, \$29,024,619 Pledged for Housing Facility Capital Improvement Debt)	39,796,593	-
Gifts and Donations	-	10,499,528
Rental Income Other	-	3,023,997
Other Operating Revenues	593,034	-
Total Operating Revenues	<u>120,295,702</u>	<u>13,523,525</u>
EXPENSES		
Operating Expenses:		
Compensation and Employee Benefits	141,590,410	-
Services and Supplies	43,115,523	-
Utilities and Communications	6,215,140	-
Scholarships, Fellowships, and Waivers	18,025,695	2,898,404
Depreciation	16,276,589	-
General and Administrative	-	1,612,850
University Support	-	7,513,533
Program Services	-	4,671,746
Other Operating Expenses	-	93,486
Total Operating Expenses	<u>225,223,357</u>	<u>16,790,019</u>
Operating Loss	<u>(104,927,655)</u>	<u>(3,266,494)</u>
NONOPERATING REVENUES (EXPENSES)		
State Noncapital Appropriations	76,437,763	-
Federal and State Student Financial Aid	24,563,460	-
Investment Income (Loss)	(484,047)	9,569,965
Other Nonoperating Revenues	5,383,473	-
Interest on Capital Asset-Related Debt	(8,338,180)	(78,817)
Loss on Disposal of Capital Assets	(56,285)	-
Other Nonoperating Expenses	(56,643)	-
Net Nonoperating Revenues (Expenses)	<u>97,449,541</u>	<u>9,491,148</u>
Income (Loss) Before Other Revenues	<u>(7,478,114)</u>	<u>6,224,654</u>
State Capital Appropriations	7,946,170	-
Capital Grants, Contracts, Donations, and Fees	5,043,816	6,345,612
Increase in Net Position	<u>5,511,872</u>	<u>12,570,266</u>
Net Position, Beginning of Year	<u>362,354,397</u>	<u>111,100,766</u>
Net Position, End of Year	<u>\$ 367,866,269</u>	<u>\$ 123,671,032</u>

The accompanying notes to financial statements are an integral part of this statement.

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FLORIDA GULF COAST UNIVERSITY
A Component Unit of the State of Florida
Statement of Cash Flows

For the Fiscal Year Ended June 30, 2017

	<u>University</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Student Tuition and Fees, Net	\$ 69,936,293
Grants and Contracts	10,548,975
Sales and Services of Auxiliary Enterprises	39,171,511
Payments to Employees	(130,929,160)
Payments to Suppliers for Goods and Services	(49,617,526)
Payments to Students for Scholarships and Fellowships	(18,025,695)
Loans Issued to Students	(67,231)
Collection on Loans to Students	71,909
Other Operating Receipts	755,599
Net Cash Used by Operating Activities	<u>(78,155,325)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
State Noncapital Appropriations	76,437,763
Federal and State Student Financial Aid	24,563,460
Federal Direct Loan Program Receipts	48,737,271
Federal Direct Loan Program Disbursements	(48,759,870)
Net Change in Funds Held for Others	(71,394)
Other Nonoperating Receipts	5,326,830
Net Cash Provided by Noncapital Financing Activities	<u>106,234,060</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Proceeds from Capital Debt and Leases	14,688
State Capital Appropriations	2,479,540
Capital Grants, Contracts, Donations and Fees	2,062,692
Purchase or Construction of Capital Assets	(11,384,186)
Principal Paid on Capital Debt and Leases	(5,629,715)
Interest Paid on Capital Debt and Leases	(8,379,821)
Net Cash Used by Capital and Related Financing Activities	<u>(20,836,802)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from Sales and Maturities of Investments	191,844,117
Purchases of Investments	(200,467,500)
Investment Income	1,347,679
Net Cash Used by Investing Activities	<u>(7,275,704)</u>
Net Decrease in Cash and Cash Equivalents	(33,771)
Cash and Cash Equivalents, Beginning of Year	529,596
Cash and Cash Equivalents, End of Year	<u>\$ 495,825</u>

FLORIDA GULF COAST UNIVERSITY
A Component Unit of the State of Florida
Statement of Cash Flows (Continued)
For the Fiscal Year Ended June 30, 2017

	<u>University</u>
RECONCILIATION OF OPERATING LOSS	
TO NET CASH USED BY OPERATING ACTIVITIES	
Operating Loss	\$ (104,927,655)
Adjustments to Reconcile Operating Loss	
to Net Cash Used by Operating Activities:	
Depreciation Expense	16,276,589
Changes in Assets, Liabilities, Deferred Outflows of Resources,	
and Deferred Inflows of Resources:	
Receivables, Net	202,499
Accounts Payable	(285,382)
Salaries and Wages Payable	848,166
Deposits Payable	155,565
Compensated Absences Payable	1,178,207
Unearned Revenue	(238,191)
Other Postemployment Benefits Payable	4,977,000
Net Pension Liability	19,930,227
Deferred Outflows of Resources Related to Pensions	(12,056,559)
Deferred Inflows of Resources Related to Pensions	(4,215,791)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (78,155,325)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND	
CAPITAL FINANCING ACTIVITIES	
Unrealized losses on investments were recognized as a reduction to investment	
income on the statement of revenues, expenses, and changes in net position, but	
are not cash transactions for the statement of cash flows.	\$ (1,837,456)
Donation of capital assets were recognized on the statement of revenues,	
expenses, and changes in net position, but are not cash transactions for the	
statement of cash flows.	\$ 2,981,124
Losses from the disposal of capital assets were recognized on the statement of	
revenues, expenses, and changes in net position, but are not cash transactions	
for the statement of cash flows.	\$ (56,285)

The accompanying notes to financial statements are an integral part of this statement.

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Reporting Entity. The University is a separate public instrumentality that is part of the State university system of public universities, which is under the general direction and control of the Florida Board of Governors. The University is directly governed by a Board of Trustees (Trustees) consisting of 13 members. The Governor appoints 6 citizen members and the Board of Governors appoints 5 citizen members. These members are confirmed by the Florida Senate and serve staggered terms of 5 years. The chair of the faculty senate and the president of the student body of the University are also members. The Board of Governors establishes the powers and duties of the Trustees. The Trustees are responsible for setting policies for the University, which provide governance in accordance with State law and Board of Governors' Regulations, and selecting the University President. The University President serves as the executive officer and the corporate secretary of the Trustees, and is responsible for administering the policies prescribed by the Trustees.

Criteria for defining the reporting entity are identified and described in the Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, Sections 2100 and 2600. These criteria were used to evaluate potential component units for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the primary government's financial statements to be misleading. Based on the application of these criteria, the University is a component unit of the State of Florida, and its financial balances and activities are reported in the State's Comprehensive Annual Financial Report by discrete presentation.

Blended Component Unit. Although it is legally separate from the University, the Florida Gulf Coast University Financing Corporation (Corporation) is included within the University's reporting entity as a blended component unit. The Corporation was incorporated on April 11, 2003, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes, and is a direct-support organization of the University. The Corporation was created to receive, hold, invest, and administer property and to make expenses for the exclusive benefit of the University. Due to the substantial economic relationship between the Corporation and the University, the financial activities of the Corporation are included in the University's financial statements. An annual audit of the Corporation is conducted by independent certified public accountants and is submitted to the Auditor General and the University Board of Trustees. Additional information on the Corporation, including copies of audit reports, is available by contacting the University Controller's office. Condensed financial statements for the Corporation are shown in a subsequent note. The condensed financial statements are reported net of eliminations.

Discretely Presented Component Unit. Based on the application of the criteria for determining component units, the Florida Gulf Coast University Foundation, Inc. (Foundation), as provided for in Section 1004.28, Florida Statutes, and Board of Governors Regulation 9.011, is included within the University reporting entity as a discretely presented component unit. The Foundation was incorporated on April 19, 1993, as a not-for-profit Florida corporation under the provisions of Chapter 617, Florida Statutes. The Foundation is a legally separate direct-support organization of the University and is governed by a separate board. Its purpose is to encourage, solicit, collect, receive, and administer gifts

and bequests of property and funds for scientific, educational, and charitable purposes, all for the advancement of the University and its objectives.

An annual audit of the Foundation's financial statements is conducted by independent certified public accountants. Additional information on the Foundation, including copies of audit reports, is available by contacting the University Controller's Office.

Basis of Presentation. The University's accounting policies conform with accounting principles generally accepted in the United States of America applicable to public colleges and universities as prescribed by GASB. The National Association of College and University Business Officers (NACUBO) also provides the University with recommendations prescribed in accordance with generally accepted accounting principles promulgated by GASB and the Financial Accounting Standards Board (FASB). GASB allows public universities various reporting options. The University has elected to report as an entity engaged in only business-type activities. This election requires the adoption of the accrual basis of accounting and entity wide reporting including the following components:

- Management's Discussion and Analysis
- Basic Financial Statements:
 - o Statement of Net Position
 - o Statement of Revenues, Expenses, and Changes in Net Position
 - o Statement of Cash Flows
 - o Notes to Financial Statements
- Other Required Supplementary Information

Measurement Focus and Basis of Accounting. Basis of accounting refers to when revenues, expenses, and related assets, deferred outflows of resources, liabilities, and deferred inflows of resources, are recognized in the accounts and reported in the financial statements. Specifically, it relates to the timing of the measurements made, regardless of the measurement focus applied. The University's financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, deferred outflows of resources, liabilities, and deferred inflows of resources resulting from nonexchange activities are generally recognized when all applicable eligibility requirements, including time requirements, are met. The University follows GASB standards of accounting and financial reporting.

The University's blended and discretely presented component units use the economic resources measurement focus and the accrual basis of accounting, and follow GASB standards of accounting and financial reporting.

Significant interdepartmental sales between auxiliary service departments and other institutional departments have been accounted for as reductions of expenses and not revenues of those departments.

The University's principal operating activities consist of instruction, research, and public service. Operating revenues and expenses generally include all fiscal transactions directly related to these

activities as well as administration, operation and maintenance of capital assets, and depreciation of capital assets. Nonoperating revenues include State noncapital appropriations, Federal and State student financial aid, and investment income (net of unrealized gains or losses on investments). Interest on capital asset-related debt is a nonoperating expense. Other revenues generally include revenues for capital construction projects.

The statement of net position is presented in a classified format to distinguish between current and noncurrent assets and liabilities. When both restricted and unrestricted resources are available to fund certain programs, it is the University's policy to first apply the restricted resources to such programs, followed by the use of the unrestricted resources.

The statement of revenues, expenses, and changes in net position is presented by major sources and is reported net of tuition scholarship allowances. Tuition scholarship allowances are the difference between the stated charge for goods and services provided by the University and the amount that is actually paid by the student or the third party making payment on behalf of the student. The University applied "The Alternate Method" as prescribed in NACUBO Advisory Report 2000-05 to determine the reported net tuition scholarship allowances. Under this method, the University computes these amounts by allocating the cash payments to students, excluding payments for services, on a ratio of total aid to the aid not considered third-party aid.

The statement of cash flows is presented using the direct method in compliance with GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*.

Cash and Cash Equivalents. Cash and cash equivalents consist of cash on hand, cash in demand accounts, and amounts held by a trustee for the Corporation. University cash deposits are held in banks qualified as public depositories under Florida law. All such deposits are insured by Federal depository insurance, up to specified limits, or collateralized with securities held in Florida's multiple financial institution collateral pool required by Chapter 280, Florida Statutes. Cash and cash equivalents that are externally restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other restricted assets, are classified as restricted.

The amount reported as restricted cash and cash equivalents for the University at June 30, 2017, includes at fair value \$370,657 of Corporation moneys held by the lender and owner of the 2005B Loan as a debt service reserve requirement.

Cash and Cash Equivalent – Component Unit. The amount reported as cash and cash equivalents for the Foundation (discretely presented component unit) at June 30, 2017, includes \$16,179,901 of bank deposits of which \$942,227 is insured by Federal deposit insurance with the remainder of \$15,237,674 collateralized under the Florida Public Deposits Program. The Foundation also had cash held on deposit with investment managers at June 30, 2017, totaling \$274,739, all of which was covered by the Securities Investor Protection.

Cash and cash equivalents reported for the Foundation at June 30, 2017, also includes at fair value \$5,667,211 of Foundation moneys held in the State Treasury Special Purpose Investment Account (SPIA) investment pool representing ownership of a share of the pool, not the underlying securities. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor's, had an effective

duration of 2.80 years, and fair value factor of 0.9923 at June 30, 2017. The Foundation relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Capital Assets. University capital assets consist of land, works of art and historical treasures, construction in progress, buildings, infrastructure and other improvements, furniture and equipment, library resources, property under capital leases, and computer software and other capital assets. These assets are capitalized and recorded at cost at the date of acquisition or at acquisition value at the date received in the case of gifts and purchases of State surplus property. Additions, improvements, and other outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. The University has a capitalization threshold of \$5,000 for tangible personal property and \$100,000 for new buildings and infrastructure and improvements. Depreciation is computed on the straight-line basis over the following estimated useful lives:

- Buildings – 35 to 50 years
- Infrastructure and Other Improvements – 10 to 50 years
- Furniture and Equipment:
 - o Equipment (Other than Moveable) – 10 to 25 years
 - o Computer Equipment – 3 to 6 years
 - o Moveable Equipment – 5 to 20 years
- Library Resources – 10 years
- Property Under Capital Leases – 10 years
- Works of Art and Historical Treasures – 20 years
- Computer Software and Other Capital Assets – 4 to 10 years

Noncurrent Liabilities. Noncurrent liabilities include bonds payable, loans payable, capital leases payable, compensated absences payable, other postemployment benefits payable, and net pension liability that are not scheduled to be paid within the next fiscal year. Bonds payable are reported net of unamortized premium or discount. The University amortizes debt premiums and discounts over the life of the debt using the straight-line method.

Pensions. For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the Florida Retirement System (FRS) defined benefit plan and the Health Insurance Subsidy (HIS) defined benefit plan and additions to/deductions from the FRS and HIS fiduciary net positions have been determined on the same basis as they are reported by the FRS and the HIS plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

2. Deficit Net Position in Individual Funds

The University reported an unrestricted net position which included a deficit in the current funds - unrestricted as shown below. This deficit can be attributed to the full recognition of long-term

liabilities (i.e., compensated absences payable, other postemployment benefits payable, and net pension liabilities) in the current unrestricted funds.

<u>Fund</u>	<u>Net Position</u>
Current Funds - Unrestricted	\$ (20,622,301)
Auxiliary Funds	11,049,976
Total University Net Position	(9,572,325)
Blended Component Unit	
Unrestricted Net Position	11,392,256
Total	\$ 1,819,931

3. Investments

Section 1011.42(5), Florida Statutes, authorizes universities to invest funds with the State Treasury and State Board of Administration (SBA), and requires that universities comply with the statutory requirements governing investment of public funds by local governments. Accordingly, universities are subject to the requirements of Chapter 218, Part IV, Florida Statutes. The Board of Trustees has not adopted a written investment policy. As such, pursuant to Section 218.415(17), Florida Statutes, the University is authorized to invest in the Florida PRIME investment pool administered by the SBA; Securities and Exchange Commission registered money market funds with the highest credit quality rating from a nationally recognized rating agency; interest-bearing time deposits and savings accounts in qualified public depositories, as defined in Section 280.02, Florida Statutes; and direct obligations of the United States Treasury. Of the reported investments, \$4 million is restricted by the covenants of the bond reimbursement agreements for the Capital Improvement Revenue Bonds Series 2008A and 2009A and \$7,750,409 for debt service reserve accounts for the Series 2005A loan, Series 2010A, 2010B, 2011A, and 2013A bonds.

Investments set aside to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital assets are classified as restricted.

The University categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets, Level 2 inputs are significant other observable inputs, and Level 3 inputs are significant unobservable inputs.

External Investment Pools

The University reported investments at fair value totaling \$96,210,090 at June 30, 2017, in the State Treasury Special SPIA investment pool, representing ownership of a share of the pool, not the underlying securities (Level 3 inputs). Pooled investments with the State Treasury are not registered with the Securities and Exchange Commission. Oversight of the pooled investments with the State Treasury is provided by the Treasury Investment Committee per Section 17.575, Florida Statutes. The authorized investment types are set forth in Section 17.57, Florida Statutes. The State Treasury SPIA investment pool carried a credit rating of A+f by Standard & Poor's, had an effective duration of 2.80 years and fair value factor of 0.9923 at June 30, 2017. Participants contribute to the State Treasury SPIA investment

pool on a dollar basis. These funds are commingled and a fair value of the pool is determined from the individual values of the securities. The fair value of the securities is summed and a total pool fair value is determined. A fair value factor is calculated by dividing the pool's total fair value by the pool participant's total cash balances. The fair value factor is the ratio used to determine the fair value of an individual participant's pool balance. The University relies on policies developed by the State Treasury for managing interest rate risk or credit risk for this investment pool. Disclosures for the State Treasury investment pool are included in the notes to financial statements of the State's Comprehensive Annual Financial Report.

Component Unit Investments

The Foundation's recurring fair value measurements as of June 30, 2017 are valued using quoted market prices (Level 1 inputs). Investments held by the Foundation at June 30, 2017, are reported at fair value as follows:

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level	Amount			
United State Treasury Securities	\$ 931,847	\$ 931,847	\$ -	\$ -
Obligations of the United State Government				
Agencies and Instrumentalities	2,961,057	-	2,961,057	-
Bonds and Notes	12,048,387	-	12,048,387	-
Stocks and Other Equity Securities	222,692	222,692	-	-
Mutual Funds	50,461,516	50,461,516	-	-
Total investments by fair value level	66,625,499	\$ 51,616,055	\$ 15,009,444	\$ -
Investments measured at the net asset value (NAV)				
Collective Investment Funds:				
NT Common US Marketcap Index Fund	21,183,891			
Other Investments:				
Real Assets	264,839			
Private Equity	1,600,174			
Total Other Investments	1,865,013			
Total investments measured at the NAV or its equivalent	23,048,904			
Total investments measured at fair value	\$ 89,674,403			

Fair Value Measurement: Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities. Debt securities classified as Level 2 of the fair value hierarchy are valued using quoted prices for similar assets in active markets.

Other information for investments measured at the NAV or its equivalent follows:

Investments measured at the NAV	Fair Value	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
NT Common US Marketcap Index Fund	\$ 21,183,891	\$ -	Daily	1 trade day
Real Assets	264,839	90,000	Not available	NA
Private Equity	1,600,174	240,250	Not available	NA
Total investments measured at the NAV	\$ 23,048,904			

Collective Investment Funds: The primary objective of the Northern Trust Common U.S. Marketcap Index Fund is to approximate the risk and return characteristics of the Dow Jones U.S. Total Stock Market Index. This Index is commonly used to represent the broad U.S. market.

Real Assets: The purpose of the partnership is to invest in a diversified portfolio of private equity and real assets investment funds (underlying funds or private investment funds), which in turn have been established to invest in a broad range of private equity, real estate, energy, and other hard-asset-oriented investments.

Private Equity: The partnerships within this segment invest in private equity funds in the venture capital, buyout, and capital restructuring sectors.

The Foundation's investment policy allows for investments in equity securities traded on the principal United States Stock Exchanges (NYSE and NASDAQ), and the Foundation only purchases equity securities of companies with a market capitalization of at least \$1 billion. For fixed income instruments, the Foundation's policy allows investments in bonds issued by the United States Government, an agency of the United States Government, public traded corporations or their affiliates, taxable municipal bonds, preferred stocks, and real estate investment trusts.

Custodial Credit Risk: Custodial credit risk is the risk that in the event of the failure of the counterparty, the value of investments or collateral securities in the possession of an outside party will not be recoverable. Exposure to custodial risk relates to investments that are held by someone other than the component unit and not registered in their names. The Foundation utilizes the services of an investment advisor and several investment managers. All investments, except for certificates of deposit and debt securities, are held by the investment managers and are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Foundation's name. The Foundation's mutual fund investments totaling \$50,461,516 at June 30, 2017, are not exposed to custodial credit risk as they are not evidenced by securities that exist in physical or book entry form. There were no losses during the period due to default by counterparties to investment transactions.

Interest Rate Risk: Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Foundation's investment policy does not limit debt obligation maturities. The Foundation's investments in debt securities at June 30, 2017, are reported at fair value as follows:

<u>Investment Type</u>	<u>Investment Maturities (In Years)</u>				
	<u>Fair Value</u>	<u>Less than 1 Year</u>	<u>1 - 5 Years</u>	<u>5 - 10 Years</u>	<u>Over 10 Years</u>
Obligations of United States Government Agencies and Instrumentalities	\$ 2,961,057	\$ 10,282	\$ 2,950,775	\$ -	\$ -
Bonds, Notes, and Other Debt Securities	12,980,234	1,409,847	6,742,684	4,733,510	94,193
Total	<u>\$ 15,941,291</u>	<u>\$ 1,420,129</u>	<u>\$ 9,693,459</u>	<u>\$ 4,733,510</u>	<u>\$ 94,193</u>

Credit Risk: Credit risk is the risk that an insurer or other counterparty to an investment will not fulfill its obligation. The Foundation does not have a formal investment policy with respect to credit risk.

At June 30, 2017, the Foundation's investments in debt securities were rated as follows:

<u>Rating</u>	<u>Number</u>	<u>Fair Value</u>	<u>% Bond Holdings</u>
AAA	33	\$ 4,700,509	29.49%
AA	27	4,390,829	27.54%
A	59	6,240,717	39.15%
BBB	3	609,236	3.82%
		<u>\$ 15,941,291</u>	

Concentration of Credit Risk: Concentration of credit risk is the risk of loss attributed to the magnitude of the component unit's investment in a single issuer. At June 30, 2017, the Foundation's investment in each of its Collective Investment Funds exceeded five percent (5%) of total investments.

Other Information: For management control, investments are pooled. Gains, losses, and investment income from the pool are allocated quarterly to the funds that participate in the pool based upon each fund's average quarterly balance.

The Foundation assesses a management fee on all endowment funds for the purpose of funding the Foundation's operating budget. Administrative fees assessed to the endowment funds totaled \$1,134,763 or 1.5% for the year ending June 30, 2017.

The Endowment Fund account balances (including cash balances) subject to the administrative fee are comprised as follows at June 30, 2017:

Eminent Scholars Program	\$ 13,871,400
Major Gifts Program	41,834,430
Other Endowment	28,937,960
	<u>\$ 84,643,790</u>

4. Receivables

Accounts Receivable. Accounts receivable represent amounts for student tuition and fees, contract and grant reimbursements due from third parties, various sales and services provided to students and third parties, and interest accrued on investments and loans receivable. As of June 30, 2017, the University reported the following amounts as accounts receivable:

<u>Description</u>	<u>Amount</u>
Contracts and Grants	\$ 1,184,234
Student Tuition and Fees	1,698,803
Other	139,241
Total Accounts Receivable	\$ 3,022,278

Loans Receivable. Loans receivable consist of short-term loans made to students pending the receipt of student financial aid.

Allowance for Doubtful Receivables. Allowances for doubtful accounts, and loans receivable, are reported based on management's best estimate as of fiscal year end considering type, age, collection history, and other factors considered appropriate. Accounts receivable and loans receivable, are reported net of allowances of \$760,493 and \$7,658, respectively, at June 30, 2017.

No allowance has been accrued for contracts and grants receivable. University management considers these to be fully collectible.

5. Due From State

The amount due from State consists of \$15,718,136 of Public Education Capital Outlay, Capital Improvement Fee Trust Fund, and Lottery funds for construction of University facilities.

6. Capital Assets

Capital assets activity for the fiscal year ended June 30, 2017, is shown in the following table:

Description	Beginning Balance	Adjustments (1)	Additions	Reductions	Ending Balance
Nondepreciable Capital Assets:					
Land	\$ 56,647,037	\$ -	\$ -	\$ 5,000,000	\$ 51,647,037
Works of Art and Historical Treasures	1,735,358	-	58,000	-	1,793,358
Construction in Progress	3,089,844	-	8,950,491	5,948,616	6,091,719
Total Nondepreciable Capital Assets	\$ 61,472,239	\$ -	\$ 9,008,491	\$ 10,948,616	\$ 59,532,114
Depreciable Capital Assets:					
Buildings	\$ 523,307,172	\$ -	\$ 5,605,928	\$ 9,680	\$ 528,903,420
Infrastructure and Other Improvements	33,268,980	-	2,204,056	-	35,473,036
Furniture and Equipment	45,366,940	-	3,078,655	772,207	47,673,388
Library Resources	11,495,776	-	422,840	-	11,918,616
Property Under Capital Leases	-	-	14,688	-	14,688
Works of Art and Historical Treasures	687,143	-	6,000	-	693,143
Computer Software and Other Capital Assets	1,055,018	-	200,536	15,825	1,239,729
Total Depreciable Capital Assets	615,181,029	-	11,532,703	797,712	625,916,020
Less, Accumulated Depreciation:					
Buildings	90,709,342	-	11,035,096	12,177	\$ 101,732,261
Infrastructure and Other Improvements	11,702,441	-	1,321,994	-	13,024,435
Furniture and Equipment	24,979,280	7,700	3,533,163	720,380	27,799,763
Library Resources	9,549,447	-	324,618	-	9,874,065
Property Under Capital Leases	-	-	1,469	-	1,469
Works of Art and Historical Treasures	142,363	-	34,913	-	177,276
Computer Software and Other Capital Assets	1,022,822	-	25,336	8,870	1,039,288
Total Accumulated Depreciation	138,105,695	7,700	16,276,589	741,427	153,648,557
Total Depreciable Capital Assets, Net	\$ 477,075,334	\$ (7,700)	\$ (4,743,886)	\$ 56,285	\$ 472,267,463

Note: (1) Adjustment to reflect the amount received as a trade-in on the purchase of new fixed equipment.

7. Unearned Revenue

Unearned revenue at June 30, 2017 consists of grants and contracts received prior to fiscal year end related to subsequent accounting periods.

8. Deferred Outflow / Inflow of Resources

Certain changes in the University's proportionate share of the net pension liabilities of the cost-sharing multiple-employer Florida Retirement System and Health Insurance Subsidy defined benefit plans are reported as deferred outflows and inflows of resources related to pensions. These include changes in actuarial assumptions and other inputs used to measure the pension liabilities, differences between actual and expected experience in the measurement of the liabilities, the net difference between projected and actual earnings on pension plan investments, as well as changes in the University's proportion of the collective net pension liabilities since the prior measurement date and changes between the University's contributions and its proportionate share of contributions. University contributions to the pension plan subsequent to the measurement date for the collective net pension liabilities are reported as deferred outflows. Total deferred outflows of resources related to pensions were \$26,669,734 and deferred inflows of resources related to pensions were \$359,938 for the fiscal year ended June 30, 2017. Note 10. includes a complete discussion of defined benefit pension plans.

9. Long-Term Liabilities

Long-term liabilities of the University at June 30, 2017, include bonds payable, loans payable, capital leases payable, compensated absences payable, other postemployment benefits payable, and net pension liability. Long-term liabilities activity for the fiscal year ended June 30, 2017, is shown below:

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 194,013,670	\$ -	\$ 5,366,641	\$ 188,647,029	\$ 5,515,000
Loans Payable	15,800,000	-	5,300,000	10,500,000	500,000
Capital Leases Payable	-	14,688	4,715	9,973	4,874
Compensated Absences Payable	10,409,057	2,254,656	1,076,449	11,587,264	996,780
Other Postemployment Benefits Payable	24,615,000	5,293,000	316,000	29,592,000	-
Net Pension Liability	30,314,904	24,786,466	4,856,239	50,245,131	472,670
Total Long-Term Liabilities	\$ 275,152,631	\$ 32,348,810	\$ 16,920,044	\$ 290,581,397	\$ 7,489,324

Capital Improvement Revenue Bonds Payable. Capital Improvement Revenue Bonds were issued to construct University facilities, including parking garages and student housing facilities. Capital Improvement Revenue Bonds outstanding, which include both term and serial bonds, are secured by a pledge of housing rental revenues, traffic and parking fees, and an assessed transportation fee based on credit hours.

In prior years, the Corporation issued Capital Improvement Revenue Bonds, Series 2003, 2005A, 2007A, 2008A, 2010A, 2010B, 2011A, and 2013A to construct or purchase student housing facilities, and 2005B, 2007C, and 2009A to construct student parking garages.

On July 1, 2013, the Corporation entered into loan agreements authorizing the refunding of Capital Improvement Revenue Bonds, Series 2005A (Student Residences Phase VII) and Capital Improvement Revenue Bonds, Series 2005B (Student Parking Phase I) which resulted in defeasance of the variable rate capital improvement revenue bond debt and securing fixed rate loans. Accordingly, the Capital Improvement Revenue Bonds, Series 2005A and 2005B are no longer reported as a bond payable on the face of the statement of net position for the reporting period ended June 30, 2017, and the new fixed rate tax exempt loan is reported as loans payable.

The University has entered into a Master Ground and Operating Lease Agreement with the Corporation. The University leases land to the Corporation for a rental fee of \$1 per year. The land covered by the ground lease together with the improvements thereon is leased back to the University to manage and operate. The master lease will terminate on the date on which the revenue bonds and any related obligations are paid in full. Revenue from the student residence facilities and parking facilities is pledged to pay rent to the Corporation or its assignees equal to the debt service on the revenue bonds. During the 2016-17 fiscal year, parking facilities rental and fee income, and student residence rental income totaled \$3,507,415, and \$29,024,619, respectively.

The University had the following capital improvement debt payable outstanding at June 30, 2017:

Capital Improvement Revenue Bonds Type and Series	Amount of Original Debt	Amount Outstanding (1)	Interest Rates (Percent)	Maturity Date To
Capital Improvement Revenue Bonds:				
2003 Student Residences (Phase VI)	\$ 47,500,000	\$ 35,240,000	4.00 to 5.00	2034
2007A Student Residences (Phase VIII)	25,000,000	20,600,292	4.00 to 5.00	2037
2007C Student Parking (Phase II)	10,000,000	7,935,658	4.00 to 4.75	2037
2008A Student Residences (Phase IX)	22,000,000	18,225,000	.90 (2)	2038
2009A Student Parking (Phase III)	8,000,000	6,720,000	.90 (2)	2039
2010A Student Housing (Phase X)	32,000,000	27,959,309	3.00 to 5.50	2040
2010B Student Housing (Phase XI)	17,000,000	14,858,919	3.00 to 5.00	2040
2011A Student Housing (Phase XII)	30,000,000	27,581,322	4.00 to 5.50	2041
2013A Student Housing (Phase XIII)	30,000,000	29,526,529	2.25 to 5.00	2043
Total Capital Improvement Revenue Bonds	\$ 221,500,000	\$ 188,647,029		

Notes: (1) Amount outstanding includes unamortized discounts and premiums.

(2) Variable interest rate at June 30, 2017.

Annual requirements to amortize all capital improvement debt outstanding as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	\$ 5,515,000	\$ 8,201,696	\$ 13,716,696
2019	5,745,000	7,975,120	13,720,120
2020	5,975,000	7,738,742	13,713,742
2021	6,220,000	7,492,607	13,712,607
2022	6,480,000	7,233,445	13,713,445
2023-2027	36,845,000	31,820,408	68,665,408
2028-2032	45,850,000	22,752,147	68,602,147
2033-2037	47,910,000	11,974,042	59,884,042
2038-2042	25,415,000	3,080,725	28,495,725
2043	1,690,000	49,292	1,739,292
Subtotal	187,645,000	108,318,224	295,963,224
Net Discounts and Premiums	1,002,029	-	1,002,029
Total	\$ 188,647,029	\$ 108,318,224	\$ 296,965,253

Loans Payable. On March 27, 2006, the Corporation entered into a Tax Exempt Note, Series 2005, in the amount of \$5 million. The Corporation drew the entire \$5 million to purchase land for the purpose of establishing a Naples Center. Principal payments are equal to all funds collected by the Foundation pursuant to a capital campaign of the Florida Gulf Coast University Naples Center Project. The obligations under the loan are secured solely by the assignment of the capital campaign. As of June 30, 2016, the Foundation had raised \$1 million of the \$5 million capital campaign toward this project. Interest is assessed on the difference between the \$5 million borrowed and the donations collected reduced by the amount of interest income earned during the year on the donations. During the year ended June 30, 2016, the University notified the Corporation that it no longer intended to use the

land and received a contract for sale for \$5 million. The Corporation closed on the sale of land on December 1, 2016, and the proceeds from the sale were used to pay off the loan with the Foundation.

On July 1, 2013, the Corporation entered into Loan Agreement (2005A), dated July 1, 2013, in the amount of \$6,800,000, and a Loan Agreement (2005B), dated July 1, 2013, in the amount of \$5,100,000, collectively hereafter referred to as the Loan, authorizing the refunding of Capital Improvement Revenue Bonds, Series 2005A (Student Residence Phase VII), and Capital Improvement Revenue Bonds, Series 2005B (Student Parking Phase I), which resulted in defeasance of the variable rate capital improvement revenue bond debt and securing fixed rate tax-exempt loans. The proceeds from the fixed rate tax-exempt loans were used to refund the outstanding principal debt of Capital Improvement Revenue Bonds, Series 2005A, in the par amount of \$6,800,000, and Capital Improvement Revenue Bonds, Series 2005B, in the par amount of \$5,100,000. Accordingly, the Capital Improvement Revenue Bonds, Series 2005A and Series 2005B, are no longer reported as a bond payable on the face of the statement of net position for the reporting period ended June 30, 2017, and the new fixed rate tax-exempt loan is reported as loans payable. The maturity dates or principal payment schedules were not modified, and there was no economic gain or loss from the advanced refunding of the bond debt.

The annual requirements to amortize the outstanding loans as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2018	\$ 500,000	\$ 268,612	\$ 768,612
2019	400,000	256,650	656,650
2020	400,000	246,210	646,210
2021	500,000	234,683	734,683
2022	500,000	221,632	721,632
2023-2027	2,600,000	911,325	3,511,325
2028-2032	3,400,000	521,565	3,921,565
2033-2035	2,200,000	93,525	2,293,525
Total	\$ 10,500,000	\$ 2,754,202	\$ 13,254,202

Loans Payable – Component Unit. The Foundation borrowed \$5 million to assist a related entity to acquire real estate in Naples, Florida. This line of credit was renewed and reduced to \$4 million in 2009. On December 1, 2016, the related entity sold the real estate and the proceeds were used to pay off the line of credit.

On July 27, 2007, the Foundation secured a \$3 million 5-year loan from Northern Trust Bank at a fixed rate of 4.28 percent to purchase the Marine Science and Environmental Education Center property. On December 15, 2012, the Foundation renewed this loan into a 5-year variable interest rate loan which includes an annual principal payment of \$150,000. This loan bears interest at 65 percent of prime rate (2.76 percent at June 30, 2017) which is payable quarterly. The loan matures on December 15, 2017.

Description	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Loans Payable	\$ 6,550,000	\$ -	\$ 4,300,000	\$ 2,250,000	\$ 2,250,000

Debt service requirements of the loans are as follows:

Year Ending June 30	Mortgage Note		Total
	Principal	Interest	
2018	\$ 2,250,000	\$ 23,776	\$ 2,273,776

Capital Lease Payable. Athletic field aeration equipment in the amount of \$14,688 was acquired under a capital lease agreement. The imputed interest rate is 4.5 percent. Future minimum payments under the capital lease agreement and the present value of the minimum payments as of June 30, 2017, are as follows:

Fiscal Year Ending June 30	Amount
2018	\$ 5,223
2019	5,223
2020	1
Total Minimum Payments	10,447
Less, Amount Representing Interest	474
Present Value of Minimum Payments	\$ 9,973

Compensated Absences Payable. Employees earn the right to be compensated during absences for annual leave (vacation) and sick leave earned pursuant to Board of Governors regulations, University regulations, and bargaining agreements. Leave earned is accrued to the credit of the employee and records are kept on each employee's unpaid (unused) leave balance. The University reports a liability for the accrued leave; however, State noncapital appropriations fund only the portion of accrued leave that is used or paid in the current fiscal year. Although the University expects the liability to be funded primarily from future appropriations, generally accepted accounting principles do not permit the recording of a receivable in anticipation of future appropriations. At June 30, 2017, the estimated liability for compensated absences, which includes the University's share of the Florida Retirement System and FICA contributions, totaled \$11,587,264. The current portion of the compensated absences liability, \$996,780, is the amount expected to be paid in the coming fiscal year, and is based on actual payouts over the last 3 years calculated as a historical percentage of those years' total compensated absences liability.

Other Postemployment Benefits Payable. The University follows GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, for certain postemployment healthcare benefits administered by the State Group Health Insurance Program.

Plan Description. Pursuant to the provisions of Section 112.0801, Florida Statutes, all employees who retire from the University are eligible to participate in the State Group Health Insurance Program, an agent multiple-employer defined benefit (OPEB) Plan. The University subsidizes the premium rates paid by retirees by allowing them to participate in the OPEB Plan at reduced or blended group (implicitly subsidized) premium rates for both active and retired employees. These rates provide an implicit subsidy for retirees because, on an actuarial basis, their current and future claims are expected to result in higher costs to the OPEB Plan on average than those of active employees. Retirees are required to enroll in the Federal Medicare (Medicare) program for their primary coverage as soon as they are eligible.

A stand-alone report is not issued and the OPEB Plan information is not included in the annual report of a public employee retirement system or another entity.

Funding Policy. OPEB Plan benefits are pursuant to the provisions of Section 112.0801, Florida Statutes, and benefits and contributions can be amended by the Florida Legislature. The State has not advance-funded OPEB costs or the net OPEB obligation. Premiums necessary for funding the OPEB Plan each year on a pay-as-you-go basis are established by the Governor's recommended budget and the General Appropriations Act. For the 2016-17 fiscal year, 59 retirees received postemployment healthcare benefits. The University provided required contributions of \$316,000 toward the annual OPEB cost, composed of benefit payments made on behalf of retirees for claims expenses (net of reinsurance), administrative expenses, and reinsurance premiums. Retiree contributions totaled \$520,000, which represents 0.57 percent of covered payroll.

Annual OPEB Cost and Net OPEB Obligation. The University's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the University's annual OPEB cost for the fiscal year, the amount actually contributed to the OPEB Plan, and changes in the University's net OPEB obligation:

<u>Description</u>	<u>Amount</u>
Normal Cost (Service Cost for One Year)	\$ 3,252,000
Amortization of Unfunded Actuarial	
Accrued Liability	1,765,000
Interest on Normal Cost and Amortization	201,000
Annual Required Contribution	5,218,000
Interest on Net OPEB Obligation	985,000
Adjustment to Annual Required Contribution	(910,000)
Annual OPEB Cost (Expense)	5,293,000
Contribution Toward the OPEB Cost	(316,000)
Increase in Net OPEB Obligation	4,977,000
Net OPEB Obligation, Beginning of Year	24,615,000
Net OPEB Obligation, End of Year	<u><u>\$ 29,592,000</u></u>

The University's annual OPEB cost, the percentage of annual OPEB cost contributed to the OPEB Plan, and the net OPEB obligation as of June 30, 2017, and for the 2 preceding fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2014-15	3,445,000	3.6%	19,632,000
2015-16	5,271,000	5.5%	24,615,000
2016-17	5,293,000	6.0%	29,952,000

Funded Status and Funding Progress. As of July 1, 2015, the most recent actuarial valuation date, the actuarial accrued liability for benefits was \$44,503,000, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability of \$44,503,000, and a funded ratio of 0 percent. The covered payroll (annual payroll of active participating employees) was \$91,940,730 for the 2016-17 fiscal year, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 48.4 percent.

Actuarial valuations for an OPEB Plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment and termination, mortality, and healthcare cost trends. Actuarially determined amounts regarding the funded status of the OPEB Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to financial statements, presents multiyear trend information that shows whether the actuarial value of OPEB Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the substantive OPEB Plan provisions, as understood by the employer and participating members, and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and participating members. The actuarial calculations of the OPEB Plan reflect a long-term perspective. Consistent with this perspective, the actuarial valuations used actuarial methods and assumptions that include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets.

The University's OPEB actuarial valuation as of July 1, 2015 used the entry-age cost actuarial method to estimate the actuarial accrued liability as of June 30, 2017, and the University's 2016-17 fiscal year ARC. This method was selected because it is the same method used for the valuation of the Florida Retirement System. Because the OPEB liability is currently unfunded, the actuarial assumptions included a 4 percent rate of return on invested assets. The actuarial assumptions also included a payroll growth rate of 3.25 percent per year and an inflation rate of 3 percent. Initial healthcare cost trend rates were 7.5 percent, 8.8 percent, and 9.7 percent for the first 3 years, respectively, for all retirees in the Preferred Provider Option (PPO) Plan, and 5.7 percent, 7 percent, and 7.8 percent for the first 3 years for all retirees in the Health Maintenance Organization (HMO) Plan. The PPO and HMO healthcare trend rates both grade down to an ultimate rate of 3.9 percent over 70 years. The unfunded actuarial accrued liability is being amortized over 30 years using the level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2017, was 20 years.

Net Pension Liability. As a participating employer in the Florida Retirement System, the University recognizes its proportionate share of the collective net pension liabilities of the FRS cost-sharing multiple-employer defined benefit plans. As of June 30, 2017, the University's proportionate share of the net pension liabilities totaled \$50,245,131. Note 10. includes a complete discussion of defined benefit pension plans.

10. Retirement Plans – Defined Benefit Pension Plans

General Information about the Florida Retirement System (FRS)

The FRS was created in Chapter 121, Florida Statutes, to provide a defined benefit pension plan for participating public employees. The FRS was amended in 1998 to add the Deferred Retirement Option Program (DROP) under the defined benefit plan and amended in 2000 to provide a defined contribution plan alternative to the defined benefit plan for FRS members effective July 1, 2002. This integrated defined contribution pension plan is the FRS Investment Plan. Chapter 112, Florida Statutes, established the Retiree Health Insurance Subsidy (HIS) Program, a cost-sharing multiple-employer defined benefit pension plan to assist retired members of any State-administered retirement system in paying the costs of health insurance. Chapter 121, Florida Statutes, also provides for nonintegrated, optional retirement programs in lieu of the FRS to certain members of the Senior Management Service Class employed by the State and faculty and specified employees in the State university system.

Essentially all regular employees of the University are eligible to enroll as members of the State-administered FRS. Provisions relating to the FRS are established by Chapters 121 and 122, Florida Statutes; Chapter 112, Part IV, Florida Statutes; Chapter 238, Florida Statutes; and FRS Rules, Chapter 60S, Florida Administrative Code; wherein eligibility, contributions, and benefits are defined and described in detail. Such provisions may be amended at any time by further action from the Florida Legislature. The FRS is a single retirement system administered by the Florida Department of Management Services, Division of Retirement, and consists of two cost-sharing multiple-employer defined benefit plans and other nonintegrated programs. A comprehensive annual financial report of the FRS, which includes its financial statements, required supplementary information, actuarial report, and other relevant information, is available from the Florida Department of Management Services Web site (www.dms.myflorida.com).

The University's FRS and HIS pension expense totaled \$8,106,881 for the fiscal year ended June 30, 2017.

FRS Pension Plan

Plan Description. The FRS Pension Plan (Plan) is a cost-sharing multiple-employer defined benefit pension plan, with a DROP for eligible employees. The general classes of membership are as follows:

- *Regular Class* – Members of the FRS who do not qualify for membership in the other classes.
- *Senior Management Service Class (SMSC)* – Members in senior management level positions.
- *Special Risk Class* – Members who are employed as law enforcement officers and meet the criteria to qualify for this class.

Employees enrolled in the Plan prior to July 1, 2011, vest at 6 years of creditable service and employees enrolled in the Plan on or after July 1, 2011, vest at 8 years of creditable service. All vested members, enrolled prior to July 1, 2011, are eligible for normal retirement benefits at age 62 or at any age after 30 years of service, except for members classified as special risk who are eligible for normal retirement benefits at age 55 or at any age after 25 years of service. All members enrolled in the Plan on or after July 1, 2011, once vested, are eligible for normal retirement benefits at age 65 or any time after 33 years of creditable service, except for members classified as special risk who are eligible for normal retirement

benefits at age 60 or at any age after 30 years of service. Employees enrolled in the Plan may include up to 4 years of credit for military service toward creditable service. The Plan also includes an early retirement provision; however, there is a benefit reduction for each year a member retires before his or her normal retirement date. The Plan provides retirement, disability, death benefits, and annual cost of living adjustments to eligible participants.

DROP, subject to provisions of Section 121.091, Florida Statutes, permits employees eligible for normal retirement under the Plan to defer receipt of monthly benefit payments while continuing employment with an FRS-participating employer. An employee may participate in DROP for a period not to exceed 60 months after electing to participate. During the period of DROP participation, deferred monthly benefits are held in the FRS Trust Fund and accrue interest. The net pension liability does not include amounts for DROP participants, as these members are considered retired and are not accruing additional pension benefits.

Benefits Provided. Benefits under the Plan are computed on the basis of age, and/or years of service, average final compensation, and credit service. Credit for each year of service is expressed as a percentage of the average final compensation. For members initially enrolled before July 1, 2011, the average final compensation is the average of the 5 highest fiscal years' earnings; for members initially enrolled on or after July 1, 2011, the average final compensation is the average of the 8 highest fiscal years' earnings. The total percentage value of the benefit received is determined by calculating the total value of all service, which is based on retirement plan and/or the class to which the member belonged when the service credit was earned. Members are eligible for in-line-of-duty or regular disability and survivors' benefits. The following table shows the percentage value for each year of service credit earned:

<u>Class, Initial Enrollment, and Retirement Age/Years of Service</u>	<u>% Value</u>
<u>Regular Class members initially enrolled before July 1, 2011</u>	
Retirement up to age 62 or up to 30 years of service	1.60
Retirement at age 63 or with 31 years of service	1.63
Retirement at age 64 or with 32 years of service	1.65
Retirement at age 65 or with 33 or more years of service	1.68
<u>Regular Class members initially enrolled on or after July 1, 2011</u>	
Retirement up to age 65 or up to 33 years of service	1.60
Retirement at age 66 or with 34 years of service	1.63
Retirement at age 67 or with 35 years of service	1.65
Retirement at age 68 or with 36 or more years of service	1.68
<u>Senior Management Service Class</u>	2.00
<u>Special Risk Class</u>	
Service from December 1, 1970 through September 30, 1974	2.00
Service on and after October 1, 1974	3.00

As provided in Section 121.101, Florida Statutes, if the member was initially enrolled in the FRS before July 1, 2011, and all service credit was accrued before July 1, 2011, the annual cost-of-living adjustment is 3 percent per year. If the member was initially enrolled before July 1, 2011, and has service credit on

or after July 1, 2011, there is an individually calculated cost-of-living adjustment. The annual cost-of-living adjustment is a proportion of 3 percent determined by dividing the sum of the pre-July 2011 service credit by the total service credit at retirement multiplied by 3 percent. Plan members initially enrolled on or after July 1, 2011, will not have a cost-of-living adjustment after retirement.

Contributions. The Florida Legislature establishes contribution rates for participating employers and employees. Contribution rates during the 2016-17 fiscal year were:

<u>Class</u>	<u>Percent of Gross Salary</u>	
	<u>Employee</u>	<u>Employer (1)</u>
FRS, Regular	3.00	7.52
FRS, Senior Management Service	3.00	21.77
FRS, Special Risk	3.00	22.57
Deferred Retirement Option Program (applicable to members from all of the above classes)	0.00	12.99
FRS, Reemployed Retiree	(2)	(2)

Notes: (1) Employer rates include 1.66 percent for the postemployment health insurance subsidy. Also, employer rates, other than for DROP participants, include 0.06 percent for administrative costs of the Investment Plan.

(2) Contribution rates are dependent upon retirement class in which reemployed.

The University's contributions to the Plan totaled \$3,737,809 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the University reported a liability of \$34,906,384 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2016. The University's proportionate share of the net pension liability was based on the University's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University's proportionate share was 0.138242676 percent, which was an increase of 0.003287005 from its proportionate share measured as of June 30, 2015.

For the year ended June 30, 2017, the University recognized pension expense of \$6,560,934. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Description</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 2,672,701	\$ 325,002
Change of assumptions	2,111,732	-
Net difference between projected and actual earnings on FRS Plan investments	9,022,875	-
Changes in proportion and differences between University contributions and proportionate share of contributions	4,595,361	-
University FRS contributions subsequent to the measurement date	3,737,809	-
Total	\$ 22,140,478	\$ 325,002

The deferred outflows of resources totaling \$3,737,809, resulting from University contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	3,095,572
2019	3,095,572
2020	6,613,248
2021	4,350,231
2022	720,365
Thereafter	202,679
Total	\$ 18,077,667

Actuarial Assumptions. The total pension liability in the July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary increases	3.25 percent, average, including inflation
Investment rate of return	7.60 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the Generational RP-2000 with Projection Scale BB.

The actuarial assumptions used in the July 1, 2016, valuation were based on the results of an actuarial experience study for the period July 1, 2008, through June 30, 2013.

The long-term expected rate of return on pension plan investments was not based on historical returns, but instead is based on a forward-looking capital market economic model. The allocation policy's description of each asset class was used to map the target allocation to the asset classes shown below. Each asset class assumption is based on a consistent set of underlying assumptions, and includes an adjustment for the inflation assumption. The target allocation and best estimates of arithmetic and geometric real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation (1)</u>	<u>Annual Arithmetic Return</u>	<u>Compound Annual (Geometric) Return</u>	<u>Standard Deviation</u>
Cash	1%	3.0%	3.0%	1.7%
Fixed Income	18%	4.7%	4.6%	4.6%
Global Equity	53%	8.1%	6.8%	17.2%
Real Estate (Property)	10%	6.4%	5.8%	12.0%
Private Equity	6%	11.5%	7.8%	30.0%
Strategic Investments	12%	6.1%	5.6%	11.1%
Total	100%			
Assumed inflation - Mean			2.6%	1.9%

Note: (1) As outlined in the Plan's investment policy.

Discount Rate. The discount rate used to measure the total pension liability was 7.60 percent. The Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the discount rate for calculating the total pension liability is equal to the long-term expected rate of return.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 7.60 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (6.60 percent) or 1 percentage point higher (8.60 percent) than the current rate:

	<u>1% Decrease (6.60%)</u>	<u>Current Discount Rate (7.60%)</u>	<u>1% Increase (8.60%)</u>
University's proportionate share of the net pension liability	\$64,265,017	\$34,906,384	\$10,469,200

Pension Plan Fiduciary Net Position. Detailed information about the Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State-Administered Systems Comprehensive Annual Financial Report.

Payables to the Pension Plan. At June 30, 2017, the University reported a payable of \$235,567 for the outstanding amount of contributions to the plan required for the fiscal year ended June 30, 2017.

HIS Pension Plan

Plan Description. The HIS Pension Plan (HIS Plan) is a cost-sharing multiple-employer defined benefit pension plan established under Section 112.363, Florida Statutes. The benefit is a monthly payment to assist retirees of State-administered retirement systems in paying their health insurance costs and is administered by the Florida Department of Management Services, Division of Retirement.

Benefits Provided. For the fiscal year ended June 30, 2017, eligible retirees and beneficiaries received a monthly HIS payment of \$5 for each year of creditable service completed at the time of retirement with

a minimum HIS payment of \$30 and a maximum HIS payment of \$150 per month, pursuant to Section 112.363, Florida Statutes. To be eligible to receive a HIS benefit, a retiree under a State-administered retirement system must provide proof of health insurance coverage, which can include Medicare.

Contributions. The HIS Plan is funded by required contributions from FRS participating employers as set by the Florida Legislature. Employer contributions are a percentage of gross compensation for all active FRS members. For the fiscal year ended June 30, 2017, the contribution rate was 1.66 percent of payroll pursuant to section 112.363, Florida Statutes. The University contributed 100 percent of its statutorily required contributions for the current and preceding 3 years. HIS Plan contributions are deposited in a separate trust fund from which HIS payments are authorized. HIS Plan benefits are not guaranteed and are subject to annual legislative appropriation. In the event the legislative appropriation or available funds fail to provide full subsidy benefits to all participants, benefits may be reduced or canceled.

The University's contributions to the HIS Plan totaled \$711,195 for the fiscal year ended June 30, 2017.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2017, the University reported a liability of \$15,338,747 for its proportionate share of the net pension liability. The current portion of the net pension liability is the University's proportionate share of benefit payments expected to be paid within one year, net of the University's proportionate share of the HIS Plan's fiduciary net position available to pay that amount. The net pension liability was measured as of June 30, 2016, and the total pension liability used to calculate the net pension liability was determined by applying update procedures to the HIS Plan actuarial valuation as of July 1, 2016. The University's proportionate share of the net pension liability was based on the University's 2015-16 fiscal year contributions relative to the total 2015-16 fiscal year contributions of all participating members. At June 30, 2016, the University's proportionate share was 0.131611257 percent, which was an increase of 0.005282277 from its proportionate share measured as of June 30, 2015.

For the fiscal year ended June 30, 2017, the University recognized pension expense of \$1,545,947. In addition, the University reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 34,936
Change of assumptions	2,407,039	-
Net difference between projected and actual earnings on HIS plan investments	7,756	-
Changes in proportion and differences between University HIS contributions and proportionate share of HIS contributions	1,403,266	-
University HIS contributions subsequent to the measurement date	711,195	-
Total	\$ 4,529,256	\$ 34,936

The deferred outflows of resources totaling \$711,195 resulting from University contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Fiscal Year Ending June 30</u>	<u>Amount</u>
2018	697,648
2019	697,648
2020	696,172
2021	695,463
2022	576,363
Thereafter	419,831
Total	\$ 3,783,125

Actuarial Assumptions. The total pension liability at July 1, 2016, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.60 percent
Salary Increases	3.25 percent, average, including inflation
Municipal bond rate	2.85 percent

Mortality rates were based on the Generational RP-2000 with Projected Scale BB.

While an experience study had not been completed for the HIS Plan, the actuarial assumptions that determined the total pension liability for the HIS Plan were based on certain results of the most recent experience study for the FRS Plan.

Discount Rate. The discount rate used to measure the total pension liability was 2.85 percent. In general, the discount rate for calculating the total pension liability is equal to the single rate equivalent to discounting at the long-term expected rate of return for benefit payments prior to the projected depletion date. Because the HIS benefit is essentially funded on a pay-as-you-go basis, the depletion date is considered to be immediate, and the single equivalent discount rate is equal to the municipal bond rate selected by the plan sponsor. The Bond Buyer General Obligation 20-Bond Municipal Bond Index was adopted as the applicable municipal bond index. The discount rate used to determine the total pension liability decreased from 3.80 percent from the prior measurement date.

Sensitivity of the University's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the University's proportionate share of the net pension liability calculated using the discount rate of 2.85 percent, as well as what the University's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.85 percent) or 1 percentage point higher (3.85 percent) than the current rate:

	<u>1% Decrease (1.85%)</u>	<u>Current Discount Rate (2.85%)</u>	<u>1% Increase (3.85%)</u>
University's proportionate share of the net pension liability	\$17,597,027	\$15,338,747	\$13,464,497

Pension Plan Fiduciary Net Position. Detailed information about the HIS Plan's fiduciary net position is available in the separately issued FRS Pension Plan and Other State Administered Comprehensive Annual Financial Report.

Payables to the Pension Plan. At June 30, 2017, the University reported a payable of \$49,376 for the outstanding amount of contributions to the Pension Plan required for the fiscal year ended June 30, 2017.

11. Retirement Plans – Defined Contribution Pension Plans

FRS Investment Plan. The SBA administers the defined contribution plan officially titled the FRS Investment Plan (Investment Plan). The Investment Plan is reported in the SBA's annual financial statements and in the State of Florida Comprehensive Annual Financial Report.

As provided in Section 121.4501, Florida Statutes, eligible FRS members may elect to participate in the Investment Plan in lieu of the FRS defined benefit plan. University employees already participating in the State University System Optional Retirement Program or DROP are not eligible to participate in the Investment Plan. Employer and employee contributions are defined by law, but the ultimate benefit depends in part on the performance of investment funds. Service retirement benefits are based upon the value of the member's account upon retirement. Benefit terms, including contribution requirements, are established and may be amended by the Florida Legislature. The Investment Plan is funded with the same employer and employee contributions, that are based on salary and membership class (Regular Class, Senior Management Service Class, etc.), as the FRS defined benefit plan. Contributions are directed to individual member accounts, and the individual members allocate contributions and account balances among various approved investment choices. Costs of administering the Investment Plan, including the FRS Financial Guidance Program, are funded through an employer contribution of 0.06 percent of payroll and by forfeited benefits of Investment Plan members. Allocations to the Investment Plan member accounts during the 2016-17 fiscal year were as follows:

<u>Class</u>	<u>Percent of Gross Compensation</u>
FRS, Regular	6.30
FRS, Senior Management Service	7.67
FRS, Special Risk Regular	14.00

For all membership classes, employees are immediately vested in their own contributions and are vested after 1 year of service for employer contributions and investment earnings regardless of membership class. If an accumulated benefit obligation for service credit originally earned under the FRS Pension Plan is transferred to the FRS Investment Plan, the member must have the years of service required for FRS Pension Plan vesting (including the service credit represented by the transferred funds) to be vested

for these funds and the earnings on the funds. Nonvested employer contributions are placed in a suspense account for up to 5 years. If the employee returns to FRS-covered employment within the 5-year period, the employee will regain control over their account. If the employee does not return within the 5-year period, the employee will forfeit the accumulated account balance. For the fiscal year ended June 30, 2017, the information for the amount of forfeitures was unavailable from the SBA; however, management believes that these amounts, if any, would be immaterial to the University.

After termination and applying to receive benefits, the member may rollover vested funds to another qualified plan, structure a periodic payment under the Investment Plan, receive a lump-sum distribution, leave the funds invested for future distribution, or any combination of these options. Disability coverage is provided in which the member may either transfer the account balance to the FRS Pension Plan when approved for disability retirement to receive guaranteed lifetime monthly benefits under the FRS Pension Plan, or remain in the Investment Plan and rely upon that account balance for retirement income.

The University's Investment Plan pension expense totaled \$782,539 for the fiscal year ended June 30, 2017.

State University System Optional Retirement Program. Section 121.35, Florida Statutes, provides for an Optional Retirement Program (Program) for eligible university instructors and administrators. The Program is designed to aid State universities in recruiting employees by offering more portability to employees not expected to remain in FRS for 8 or more years.

The Program is a defined contribution plan, which provides full and immediate vesting of all contributions submitted to the participating companies on behalf of the participant. Employees in eligible positions can make an irrevocable election to participate in the Program, rather than the FRS, and purchase retirement and death benefits through contracts provided by certain insurance carriers. The employing university contributes 5.14 percent of the participant's salary to the participant's account, 2.83 percent to cover the unfunded actuarial liability of the FRS Pension Plan, and 0.01 percent to cover administrative costs, for a total of 7.98 percent, and employees contribute 3 percent of the employee's salary. Additionally, the employee may contribute, by payroll deduction, an amount not to exceed the percentage contributed by the University to the participant's annuity account. The contributions are invested in the company or companies selected by the participant to create a fund for the purchase of annuities at retirement.

The University's contributions to the Program totaled \$3,629,606 and employee contributions totaled \$2,349,057 for the 2016-17 fiscal year.

12. Construction Commitments

The University's construction commitments at June 30, 2017, were as follows:

Project Description	Total Commitment	Completed to Date	Balance Committed
South Village Recreation Center	\$ 7,009,066	\$ 1,032,876	\$ 5,976,190
South Access Road	4,000,066	182,014	3,818,052
North Lake Village Dining Facility	3,500,000	791,131	2,708,869
North Lake Village Site Improvements	4,200,000	3,155,242	1,044,758
INTG Watershed/Coastal Studies Bldg.	3,852,144	42,077	3,810,067
WGPU Transmission Tower Replacement	1,795,010	3,150	1,791,860
Subtotal	24,356,286	5,206,490	19,149,796
Project Balances Under \$1 million	2,309,881	885,229	1,424,652
Total	\$ 26,666,167	\$ 6,091,719	\$ 20,574,448

13. Risk Management Programs

The University is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Pursuant to Section 1001.72(2), Florida Statutes, the University participates in State self-insurance programs providing insurance for property and casualty, workers' compensation, general liability, fleet automotive liability, Federal Civil Rights, and employment discrimination liability. During the 2016-17 fiscal year, for property losses, the State retained the first \$2 million per occurrence for all perils except named windstorm and flood. The State retained the first \$2 million per occurrence with an annual aggregate retention of \$40 million for named windstorm and flood losses. After the annual aggregate retention, losses in excess of \$2 million per occurrence were commercially insured up to \$85 million for named windstorm and flood losses through February 14, 2017, and increased to \$92.5 million starting February 15, 2017. For perils other than named windstorm and flood, losses in excess of \$2 million per occurrence were commercially insured up to \$200 million through February 14, 2017, and increased to \$225 million starting February 15, 2017; and losses exceeding those amounts were retained by the State. No excess insurance coverage is provided for workers' compensation, general and automotive liability, Federal Civil Rights and employment action coverage; all losses in these categories are completely self-insured by the State through the State Risk Management Trust Fund established pursuant to Chapter 284, Florida Statutes. Payments on tort claims are limited to \$200,000 per person, and \$300,000 per occurrence as set by Section 768.28(5), Florida Statutes. Calculation of premiums considers the cash needs of the program and the amount of risk exposure for each participant. Settlements have not exceeded insurance coverage during the past 3 fiscal years.

Pursuant to Section 110.123, Florida Statutes, University employees may obtain healthcare services through participation in the State group health insurance plan or through membership in a health maintenance organization plan under contract with the State. The State's risk financing activities associated with State group health insurance, such as risk of loss related to medical and prescription drug claims, are administered through the State Employees Group Health Insurance Trust Fund. It is the practice of the State not to purchase commercial coverage for the risk of loss covered by this Fund. Additional information on the State's group health insurance plan, including the actuarial report, is available from the Florida Department of Management Services, Division of State Group Insurance.

14. Functional Distribution of Operating Expenses

The functional classification of an operating expense (instruction, research, etc.) is assigned to a department based on the nature of the activity, which represents the material portion of the activity attributable to the department. For example, activities of an academic department for which the primary departmental function is instruction may include some activities other than direct instruction such as research and public service. However, when the primary mission of the department consists of instructional program elements, all expenses of the department are reported under the instruction classification. The operating expenses on the statement of revenues, expenses, and changes in net position are presented by natural classifications. The following are those same expenses presented in functional classifications as recommended by NACUBO:

<u>Functional Classification</u>	<u>Amount</u>
Instruction	\$ 70,791,049
Research	2,629,257
Public Services	8,859,695
Academic Support	17,726,597
Student Services	14,633,941
Institutional Support	31,033,301
Operation and Maintenance of Plant	10,955,631
Scholarships, Fellowships, and Waivers	18,025,695
Depreciation	16,276,589
Auxiliary Enterprises	34,291,602
Total Operating Expenses	<u><u>\$ 225,223,357</u></u>

15. Segment Information

A segment is defined as an identifiable activity (or grouping of activities) that has one or more bonds or other debt instruments outstanding with a revenue stream pledged in support of that debt. In addition, the activity's related revenues, expenses, gains, losses, assets, and liabilities are required to be accounted for separately. The following financial information for the University's Housing and Parking facilities represents identifiable activities for which one or more bonds are outstanding:

Condensed Statement of Net Position

	Housing Facility	Parking Facility
Assets		
Current Assets	\$ 17,516,794	\$ 3,631,045
Capital Assets, Net	175,283,242	20,587,875
Other Noncurrent Assets	12,597,885	1,370,657
Total Assets	205,397,921	25,589,577
Liabilities		
Current Liabilities	10,790,040	958,703
Noncurrent Liabilities	174,646,371	18,485,658
Total Liabilities	185,436,411	19,444,361
Net Position		
Net Investment in Capital Assets	2,070,186	112,761
Restricted - Expendable	10,761,583	1,370,657
Unrestricted	7,129,741	4,661,798
Total Net Position	\$ 19,961,510	\$ 6,145,216

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	Housing Facility	Parking Facility
Operating Revenues	\$ 29,053,902	\$ 3,513,132
Depreciation Expense	(4,174,407)	(503,902)
Other Operating Expenses	(18,416,774)	(1,669,103)
Operating Income	6,462,721	1,340,127
Nonoperating Revenues (Expenses):		
Nonoperating Revenue	390,651	54,699
Other Nonoperating Expense	(6,577,844)	(578,352)
Net Nonoperating Expenses	(6,187,193)	(523,653)
Increase in Net Position	275,528	816,474
Net Position, Beginning of Year	19,685,982	5,328,742
Net Position, End of Year	\$ 19,961,510	\$ 6,145,216

Condensed Statement of Cash Flows

	Housing Facility	Parking Facility
Net Cash Provided (Used) by:		
Operating Activities	\$ 10,484,220	\$ 1,854,554
Noncapital Financing Activities	(6,217,174)	(563,375)
Capital and Related Financing Activities	(6,559,111)	(559,332)
Investing Activities	2,292,065	(731,773)
Net Increase in Cash and Cash Equivalents	-	74
Cash and Cash Equivalents, Beginning of Year	-	370,583
Cash and Cash Equivalents, End of Year	\$ -	\$ 370,657

16. Blended Component Unit

The University has one blended component unit as discussed in Note 1. The following financial information is presented net of eliminations for the University's blended component unit:

Condensed Statement of Net Position

	FGCU Financing Corporation	University	Eliminations	Total Primary Government
Assets:				
Current Assets	\$ 20,705,586	\$ 79,934,385	\$ (517,543)	\$ 100,122,428
Capital Assets, Net	1,847,476	529,952,101	-	531,799,577
Other Noncurrent Assets	205,809,236	3,207,187	(193,688,170)	15,328,253
Total Assets	228,362,298	613,093,673	(194,205,713)	647,250,258
Deferred Outflows of Resources	-	26,669,734	-	26,669,734
Liabilities:				
Current Liabilities	10,049,640	13,069,615	(517,543)	22,601,712
Noncurrent Liabilities	193,132,029	283,648,214	(193,688,170)	283,092,073
Total Liabilities	203,181,669	296,717,829	(194,205,713)	305,693,785
Deferred Inflows of Resources	-	359,938	-	359,938
Net Position:				
Net Investment in Capital Assets	1,656,133	330,986,442	-	332,642,575
Restricted - Expendable	12,132,240	21,271,523	-	33,403,763
Unrestricted	11,392,256	(9,572,325)	-	1,819,931
Total Net Position	\$ 25,180,629	\$ 342,685,640	\$ -	\$ 367,866,269

Condensed Statement of Revenues, Expenses, and Changes in Net Position

	FGCU Financing Corporation	University	Eliminations	Total Primary Government
Operating Revenues	\$ 18,252,887	\$ 102,042,815	\$ -	\$ 120,295,702
Depreciation Expense	-	(16,276,589)	-	(16,276,589)
Other Operating Expenses	(14,278,002)	(203,006,438)	8,337,672	(208,946,768)
Operating Income (Loss)	3,974,885	(117,240,212)	8,337,672	(104,927,655)
Nonoperating Revenues (Expenses):				
Nonoperating Revenue	445,350	105,939,346	-	106,384,696
Interest Expense	-	(508)	(8,337,672)	(8,338,180)
Other Nonoperating Expense	(10,194,775)	9,597,800	-	(596,975)
Net Nonoperating Revenues (Expenses)	(9,749,425)	115,536,638	(8,337,672)	97,449,541
Other Revenues	-	12,989,986	-	12,989,986
Increase (Decrease) in Net Position	(5,774,540)	11,286,412	-	5,511,872
Net Position, Beginning of Year	30,955,169	331,399,228	-	362,354,397
Net Position, End of Year	\$ 25,180,629	\$ 342,685,640	\$ -	\$ 367,866,269

Condensed Statement of Cash Flows

	FGCU Financing Corporation	University	Eliminations	Total Primary Government
Net Cash Provided (Used) by:				
Operating Activities	\$ 9,431,352	\$ (77,858,659)	\$ (9,728,018)	\$ (78,155,325)
Noncapital Financing Activities	(3,873,127)	91,889,300	18,217,887	106,234,060
Capital and Related Financing Activities	(7,143,443)	(5,203,490)	(8,489,869)	(20,836,802)
Investing Activities	1,560,292	(8,835,996)	-	(7,275,704)
Net Decrease in Cash and Cash Equivalents	(24,926)	(8,845)	-	(33,771)
Cash and Cash Equivalents, Beginning of Year	445,583	84,013	-	529,596
Cash and Cash Equivalents, End of Year	\$ 420,657	\$ 75,168	\$ -	\$ 495,825

17. Related Party Transactions

University and Blended Component Unit.

As part of a Master Ground and Operating Lease Agreement (see Note 9.), the University operates and pays all operating costs of the facilities leased from the Corporation from the gross rental income from the respective student residences and parking facilities. The net rental income is then paid to the Corporation by the University in arrears based on collections. The University provides office space and

related occupancy costs, such as, utilities and use of other office machines as well as accounting and record keeping services at no cost to the Corporation.

Discretely Presented Component Unit.

On March 15, 2006, the Foundation, loaned \$5 million to the Corporation to purchase a two-acre lot in Naples as the future location of the University's Naples Center (Naples Center). In December 2016, the Corporation sold the land and repaid all associated debts to the Foundation. The Corporation was responsible for the interest due on the loan and reimbursed the Foundation prior to the sale of the land.

The Foundation maintains a portion of its investments and had two outstanding loans with a financial institution of which a Foundation board member was an officer during the fiscal year ended June 30, 2017. The Foundation investments managed by the financial institution at June 30, 2017, totaled \$21,328,834. The Foundation had one outstanding loan totaling \$2,250,000 with the financial institution at June 30, 2017, and paid \$113,198 in interest during the fiscal year ended June 30, 2017. The Foundation paid off the other outstanding loan with the proceeds from the sale of land by the Corporation.

The Foundation maintains a portion of its fixed income investments with an investment firm of which a Foundation board member was an officer during the fiscal year ended June 30, 2017. The Foundation investments managed by the investment firm at June 30, 2017, totaled \$11,359,524.

The Foundation's operating bank account was with a financial institution that a Foundation board member was an officer of during the fiscal year ending June 30, 2017. On June 30, 2017, the Foundation had \$15,463,990 on deposit with this financial institution.

On July 17, 2013, the University renewed the lease agreement with the Foundation for the use of waterfront property for the University's Vester Marine Science and Environmental Education Center. The monthly lease payment of \$32,000 covers the general operating and maintenance expenses incurred by the Foundation.

OTHER REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Funding Progress – Other Postemployment Benefits Plan

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (1) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
7/1/2011	\$ -	\$ 26,010,000	\$ 26,010,000	0%	\$ 66,215,314	39.3%
7/1/2013	-	28,949,000	28,949,000	0%	72,848,027	39.7%
7/1/2015	-	44,503,000	44,503,000	0%	84,243,931	52.8%

Note: (1) The entry-age cost actuarial method was used to calculate the actuarial accrued liability.

Schedule of the University's Proportionate Share of the Net Pension Liability – Florida Retirement System Pension Plan

	2016 (1)	2015 (1)	2014 (1)	2013 (1)
University's proportion of the FRS net pension liability	0.138242676%	0.134955671%	0.120557144%	0.090929688%
University's proportionate share of the FRS net pension liability	\$ 34,906,384	\$ 17,431,335	\$ 7,355,759	\$ 15,653,046
University's covered payroll (2)	\$ 83,326,076	\$ 78,759,256	\$ 71,749,253	\$ 67,297,169
University's proportionate share of the FRS net pension liability as a percentage of its covered payroll	41.89%	22.13%	10.25%	23.26%
FRS Plan fiduciary net position as a percentage of the FRS total pension liability	84.88%	92.00%	96.09%	88.54%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

Schedule of University Contributions – Florida Retirement System Pension Plan

	2017 (1)	2016 (1)	2015 (1)	2014 (1)
Contractually required FRS contribution	\$ 3,737,809	\$ 3,371,268	\$ 3,290,334	\$ 2,640,713
FRS contributions in relation to the contractually required contribution	(3,737,809)	(3,371,268)	(3,290,334)	(2,640,713)
FRS contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
University's covered payroll (2)	\$ 87,654,579	\$ 83,326,076	\$ 78,759,256	\$ 71,749,253
FRS contributions as a percentage of covered payroll	4.26%	4.05%	4.18%	3.68%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, State university system optional retirement program members, and members in DROP because total employer contributions are determined on a uniform basis (blended rate) as required by Part III of Chapter 121, Florida Statutes.

**Schedule of the University's Proportionate Share
of the Net Pension Liability –
Health Insurance Subsidy Pension Plan**

	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>	<u>2013 (1)</u>
University's proportion of the HIS net pension liability	0.131611257%	0.126328980%	0.116328119%	0.109926339%
University's proportionate share of the HIS net pension liability	\$ 15,338,747	\$ 12,883,569	\$ 10,876,963	\$ 9,570,533
University's covered payroll (2)	\$ 39,725,141	\$ 37,462,263	\$ 34,108,299	\$ 31,706,972
University's proportionate share of the HIS net pension liability as a percentage of its covered payroll	38.61%	34.39%	31.89%	30.18%
HIS Plan fiduciary net position as a percentage of the HIS total pension liability	0.97%	0.50%	0.99%	1.78%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

**Schedule of University Contributions –
Health Insurance Subsidy Pension Plan**

	<u>2017 (1)</u>	<u>2016 (1)</u>	<u>2015 (1)</u>	<u>2014 (1)</u>
Contractually required HIS contribution	\$ 711,195	\$ 674,592	\$ 482,908	\$ 398,501
HIS contributions in relation to the contractually required HIS contribution	(711,195)	(674,592)	(482,908)	(398,501)
HIS contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
University's covered payroll (2)	\$ 42,170,740	\$ 39,725,141	\$ 37,462,263	\$ 34,108,299
HIS contributions as a percentage of covered payroll	1.69%	1.70%	1.29%	1.17%

Notes: (1) The amounts presented for each fiscal year were determined as of June 30.

(2) Covered payroll includes defined benefit plan actives, investment plan members, and members in DROP.

1. Schedule of Funding Progress – Other Postemployment Benefit Plan

The July 1, 2015, unfunded actuarial accrued liability of \$44,503,000 was significantly higher than the July 1, 2013, liability of \$28,949,000 as a result of (1) the per capita claims cost assumption increased, (2) retiree contributions were not as high as expected, (3) the healthcare trend rate assumption was revised, and (4) certain demographic assumptions were revised (retirement rates, termination rates, etc.).

**2. Schedule of Net Pension Liability and Schedule of Contributions –
Florida Retirement System Pension Plan**

Changes of Assumptions. The long-term expected rate of return was decreased from 7.65 percent to 7.60 percent, and the active member mortality assumption was updated.

**3. Schedule of Net Pension Liability and Schedule of Contributions –
Health Insurance Subsidy Pension Plan**

Changes of Assumptions. The municipal rate used to determine total pension liability decreased from 3.80 percent to 2.85 percent.



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The President of the Senate, the Speaker of the
House of Representatives, and the
Legislative Auditing Committee

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Florida Gulf Coast University, a component unit of the State of Florida, and its discretely presented component unit as of and for the fiscal year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated March 9, 2018, included under the heading **INDEPENDENT AUDITOR'S REPORT**. Our report includes a reference to other auditors who audited the financial statements of the blended and discretely presented component units, as described in our report on the University's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the University's internal control over financial reporting (internal control) to determine audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the University's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control

that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, rules, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Respectfully submitted,



Sherrill F. Norman, CPA
Tallahassee, Florida
March 9, 2018